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## INTRODUCTION

The last decade of the 20<sup>th</sup> century has been characterised by the overall increase of poverty and unemployment. These negative trends came as a consequence of ten years reduction period of economic activities and political crises, war, international isolation of the country and NATO bombing. At the same time, Serbia hosted about 600,000 refugees from Bosnia, Croatia and Kosovo. General social, political and economic trends had a very negative impact on the state and tendencies at the labour market; unemployment presents one of the most difficult economic and social problems in Serbia.

Presently, Serbia suffers from large number of people living below the poverty line, widespread dependency on state-financed social support services and a looming expectation of additional socio-economic stress as more people are losing their jobs during the privatization process. Microfinancing is a proven poverty alleviation and job creation tool. Micro-credit organizations work with the goal of providing sustainable finance to poor entrepreneurs who lack access to formal bank finance because of inability to fulfill collateral, credit history, and other banking requirements. The non-bank micro credit sector in Serbia is still in the early stages of development. Generally, micro-lending is focused mostly on reaching refugees and IDPs.

The aim of the DRC/MDF micro-loan program is to provide financial support to the refugees, internally displaced persons and local counterparts with entrepreneurial skills and ideas to start up or develop small-scale businesses in order to improve their own economic situation. Area of implementation includes 50 municipalities in Serbia; regional offices are in Niš, Kraljevo and Užice.

The impact assessment research was conducted in order to identify the level of micro loan program influence on economic and social status of clients' households, businesses and employment. Research results are presented in the following report. Also, report contains presentation of the results concerning whether the characteristics of the loan program are accordant to the clients' needs.



# **PART ONE**

## **1. STUDY CONTEXT**

## **2. DRC/MDF PROGRAM**

## 1. STUDY CONTEXT

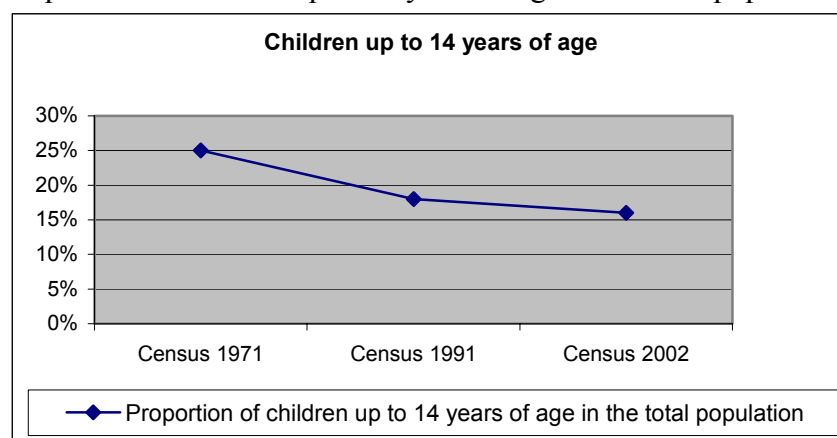
### Demographic characteristics of Serbia

- According to the 2002 Census the total population in Serbia without Kosovo numbers 7,498,001 people. Compared to the 1991 Census, number of inhabitants is 297,570 less.
- Age structure of the population in Serbia is generally unfavorable. Trend of the participation of population under age of 14 in the overall population, is negative.

Table 1 – Population according to the Census (1991 and 2002)

	Census 1991			Census 2002		
	Republic Serbia					
	Total	Central Serbia	Vojvodina	Total	Central Serbia	Vojvodina
Total	<b>7795571</b>	5745682	2013889	<b>7498001</b>	5466009	2031992
0-4	364917	269757	95160	342335	249760	92575
5-9	493537	362260	131277	394596	286762	107834
10-14	515525	383664	137861	439830	318034	121796
15-19	516215	384842	131373	495651	357874	137777
20-24	498817	371252	127564	512429	369988	142441
25-64	4401159	3258967	1142630	4024725	2918912	1105813
65/older	962963	714939	248024	1240505	925320	315185

Proportion of children up to 14 years of age in the total population<sup>1</sup>



Compared to the 1991 the decrement of the overall number of population is evident, as well as unfavourable age structure. Difficult economic situation, war, hiperinflation, international isolation of the country and other political and economic factors, had influenced the natality rate. But, many negative trends have also caused the increase of the unemployment and poverty.

<sup>1</sup> According to Table 1 and records from Republic Bureau for Statistic

### Poverty in Serbia

The last decade of the 20<sup>th</sup> century has been characterised by the overall decrease of standard of living and the increase of poverty. After the changes in the October 2000, the overall situation has improved, but the short period of transition and privatisation was also characterised with the increase of unemployment rate. These negative trends came as a consequence of ten years reduction period of economic activities and political crises, war, international isolation of the country and NATO bombing. This situation caused dramatic decrease of salaries which resulted in increase of poverty and huge social changes. At the same time, Serbia hosted about 600,000 refugees from Bosnia, Croatia and Kosovo.

In 2002<sup>2</sup>, the poverty in Serbia was for the first time defined by using household consumption as the main aggregate in poverty measurement. Poverty line was defined in two steps. In the first step the food poverty line was defined as the line of absolute poverty on the basis of a minimal consumer food basket. The minimal consumer basket for a four-member household, defined according to regular standards, amounted to 7,605 dinars a month. The second step defined the complete poverty line that, beside the expenditures for food, included also other things. It reached 13,827 dinars a month for a four-member household, or 4,489 dinars by consumer unit. The second poverty line was determined for the needs of the analysis of characteristics of the population that is close to poverty, i.e. close to poverty line of 4,489 dinars. It reached 5,507 dinars and below it are 20% or about 1,600,000 inhabitants. So, in 2002, approximately every tenth inhabitant of Serbia was poor, because their consumption by the consumption unit was on average lower than 4,489 dinars or 72 USD a month (2.4 USD a day).

Regarding geographic component of poverty, the region with the largest share of the poor is Southeast Serbia. Western Serbia is the second largest region according to the number of poor and characteristics of poverty.

Since the year 2000, the establishment of macro-economic stability and the real increase of GDP (5% annually on average), as well as the real increase of wages and other incomes of the population in real terms, caused growth of consumption and living standards. However, the poverty level in Serbia is still relatively high. Also, it should be taken into consideration that above mentioned data do not include all the refugees and IDPs who are more affected and vulnerable compared to the permanent population of Serbia.<sup>3</sup>

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<sup>2</sup> According to the Survey on the Living Standard of the Population by Ministry of Social Affairs of Republic of Serbia and World Bank

<sup>3</sup> Survey did not include neither Roma nor the 25,000 persons living in collective centers

## Unemployment

Unemployment presents one of the most difficult economic and social problems in Serbia. General social, political and economic trends had a very negative impact on the state and tendencies at the labour market. According to the data, the official unemployment rate is around 30% and tends to reach 40% by the end of 2003. The structure of employed has also changed. There is a general change in the direction of further decreasing of employment in the state owned sector and traditional industry areas, compared to the increase of employment in the various fields of flexible employment, such as temporary and occasional employment, part-time jobs, selfemployment etc.

High unemployment rates have been present for many years. Reasons for such high unemployment rates are caused by negative economic trends, lack of investments which would create more jobs, by the process of transition, structural changes etc. All these processes are even more deteriorated with the NATO bombing in 1999 and international isolation of the country.

In the structure of unemployed, people with the lowest level of education prevail. Also, more than half of the overall number of unemployed are women (55.8%) and young people under age of 30 (49%).

All mentioned characteristics indicate that unemployment in Serbia is very high, longlasting, structurally unfavourable, targets low educated people, women and invalides.

### Microfinance in Serbia

Presently, Serbia suffers from high unemployment; large number of people living below the poverty line, widespread dependency on state-financed social support services, and a looming expectation of additional socio-economic stress as more people is losing their jobs during the privatization process. Microfinance is a proven poverty alleviation and job creation tool.

Microfinancing is important because it reaches a poorer level of society than commercial banks can profitably serve. Micro-credit organizations work with the goal of providing sustainable finance to poor entrepreneurs who lack access to formal bank finance because of inability to fulfill collateral, credit history, and other banking requirements. The non-bank microcredit sector in Serbia is still in the early stages of development. Generally, micro-lending is focused on reaching refugees and IDPs.

Policy working group, in which the DRC/MDF representative actively participates, works on the proposition of a law for micro-finance institutions. After the adoption of proposed law, micro-lending will increase the influence on:

- Poverty reduction (studies show movement of 65% of micro-loan borrowers out of poverty)
- Self-employment and job creation for the poor
- Reduced dependency on government social welfare services
- Increased international investment in the Serbian economy
- Increased government revenues as a result from the development of new and existing micro and small businesses
- Local community strengthening.

## **2. Danish Refugee Council/Micro Development Fund (DRC/MDF) Program**

### Background

Serbia currently hosts the largest number of refugees and IDPs in Europe. UNHCR estimates that at this moment, around 473,378 refugees from Bosnia and Herzegovina and Croatia, and some 214,733 IDPs from Kosovo are living in Serbia<sup>4</sup>. They represent close to 9 % of the total population. This, in connection to the generally poor economy, presents an additional burden to the local host communities in Serbia.

The IDPs from Kosovo are concentrated in Central Serbia where they mostly accommodate with host families or in poor private shelters. The refugees from Bosnia and Herzegovina and Croatia are still facing poor or no lasting solutions to their situation. The majority of the approximately 680,000 refugees and IDPs are still in private accommodation where they have tried to create better conditions for themselves. However, a large number, especially those from the more vulnerable groups, are still in collective centres (CCs) where standards of living are poor.

DRC has been implementing programs in Serbia since 1993 and is thus one of the most experienced and longest-working NGOs in the country. During that period, DRC has worked with social rehabilitation, education, vocational training and capacity building, income-generating programs, shelter construction, repatriation, as well as with emergency response programs in terms of relief aid distribution and psychosocial assistance programs. DRC implements activities in the region of Central and Southern Serbia, in more than 60 municipalities through 4 main programs: Integration through Community Development, Repatriation/Return, Self-reliance, and NGO Development. ECHO, UNHCR, Danida and FRESTA fund the programs along with private contributions. In 2002, collaboration with ICRC on Vocational Training program for IDPs has started.

Self-reliance program consists of 3 programs: income generating grants program (in-kind grant), vocational training program and micro-loan program.

### ***Micro-Loan Program – Micro Development Fund***

The main donors of DRC/MDF micro-loan program are **UNHCR** and **DANIDA** (Danish Government Fund).

The aim of the micro-loan program is to provide financial support to the refugees, internally displaced persons and local counterparts with entrepreneurial skills and ideas to start up or develop small-scale businesses in order to improve their own economic situation. Area of implementation includes 50 municipalities in Serbia; regional offices are in Niš, Kraljevo and Užice, while the administrative office is based in Belgrade. Micro loan program provides opportunity for self-employment to the people with entrepreneurial ideas but no available assets. Sustainable access to the micro-loans allows loan clients to develop their small-scale businesses whilst generating income for themselves as well as creating jobs for others.

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<sup>4</sup> Refugee and IDP figures correspond to data of Serbian Commissariat for Refugees.

**Objectives of the micro-loan program are:**

- Increased borrowers' capacities to take initiatives, realize and develop their business ideas/plans whilst strengthening their family livelihoods
- Offered an opportunity to the borrowers to create employments primarily within a private sector by offering access to the micro loans
- Improved and stabilized economic situation as well as general living conditions of the borrowers' generally poor families
- Facilitated conditions for refugees to improve the level of local integration
- Provided sustainable access to micro loans
- Developed credible local micro lending institution.

**Target group:**

The targeted beneficiaries of the micro-loan program are economically active refugees, internally displaced persons and economically disadvantaged local population. Targeting of these groups is intended to enhance coexistence within local communities whilst offering refugees and IDPs opportunities to explore partnerships with the local population. An emphasis is given to women loan clients due to hindered access to the employment and due to fact that women are proven as good clients in the micro finance schemes.

**Implementation methods:**

Individual lending methodology is used as is proven the best methodology due to clients' culture and habits. Repayments of the loans are secured through different collaterals offered by the clients in all areas of operation.

**Financial services:**

1. Lending methodology: individual
2. Loans are approved for:
  - businesses already operating,
  - developing new businesses.
3. Loan amount:
  - minimum 200 \$
  - maximum 3 000 \$Loans granted are progressive:  
First loan: 200 – 1200 \$  
Every repeated loan can be up to 50% higher than previous loan.
4. Loan term:
  - First loan up to 12 months,
  - Repeated loans up to 18 months.
5. One-month deferment is granted to the borrowers.
6. Repayment frequency is on a monthly basis.

## 7. Interest rate:

Monthly Interest Rate	
First Loan	1.5%
Repeated Loan:	Grade A    Grade B    Grade C
Second Loan	1.1%    1.3%    1.5%
Third loan	1%    1.3%    1.5%
<i>Golden card</i>	1%

**A** – previous loans installments paid at the **scheduled date and scheduled amount** (or before scheduled date and/or higher amount); one payment late for five day is allowable

**B** – previous loans installments paid with minimum delay (up to **5 days** according to the database default for the penalty grace period)

**C** – delay over 5 days and/or less paid re the amount; no bonus.

Micro-loan data as of May 31, 2003:

Number of loans disbursed from inception of program: 3743

Average loan amount: 1110 USD

Average loan term: 13

No.of active loans: 1083

Repayment rate: 97.8%

### MICRO-LOAN AREA OF COVERAGE

SERBIA 2003



## **PART TWO**

### **-RESEARCH METHODOLOGY-**

- 1. PURPOSE AND RESEARCH OBJECTIVES**
- 2. RESEARCH METHODOLOGY**
- 3. RESEARCH PROCESS**

## **1. Purpose and Aims of the Micro Loan Impact Research:**

**Purpose:** To identify the level of micro loan program influence on economic and social status of clients and whether the current loan product corresponds to the clients' needs. The result of the study should contain information and indicators on effects of the micro loan program on clients.

**Aim:** The aim of the study is to analyse the quantitative effects of the loan product in order to use the results as base for better understanding the real impact on clients, to evaluate at what extent it corresponds to the objectives and mission of DRC/ MDF. The results will be used for further improvement and development of the micro loan program design towards identified client needs.

### **Hypothesis:**

Micro loan program creates an improvement in the economic situation of the clients' family livelihood.

Continued access to micro loans offers better opportunities for planning and development of the clients' businesses.

Micro loan program offers possibility for self-employment through either the start up of new businesses or the development of existing ones.

Characteristics of the loan product are in accordance to the clients' needs.

### **Level of analyses:**

Household and business level

### **Indicators:**

Micro-loans influence on the improvement of household livelihood.

Indicators: assets owned by the family, the level of savings, household income, larger investments (building/adaptation of house)

Micro-loans influence on the clients' business.

Indicators: the level of business improvements, the level of profit/income

Micro-loans influence on self-employment/employment.

Indicators: number of workers, number of clients who started the business by taking a loan

Loan product characteristics – quantitative analyses

## 2. Research Methodology

Research was conducted in all three regions – Central (Kraljevo), West (Uzice) and South (Nis) in seven municipalities. The research was conducted during February and March 2003.

### **Method:**

Study conducted was retrospective (versus longitudinal); i.e. clients were asked to refer to a specific date at the past and results were compared to the answers of the control group.

### **Sampling:**

In the process of sampling the stratified random choice sample was used. The whole number of clients was divided in three relatively homogeneous strata<sup>5</sup> and random choice samples were drawn from each stratum.

### **Sample size:**

- clients: 120
- non-clients: 80

### **Control group:**

Special attention was given to the process of selection of the control group. Control group is constituted of “incoming” non-clients from the loan waiting list (self-selection bias of control group should be taken into account). Also all available data from other DRC programs were used (mostly from the beneficiaries of vocational training program). Cooperation and the possibility to exchange information with other members of DRC staff made the process of choosing non-clients easier.

### **Statistical analyses:**

To analyze data t-test and chi-square tests were used.

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<sup>5</sup> Based on the previously conducted research, it was determined that the client population is not homogeneous. So the population was divided in three mutually exclusive groups, and random samples are drawn from each group.

### 3. Research process

The research process followed the next steps:

November 2002:

Setting research objectives  
Formulating hypothesis  
Identifying indicators

December 2002:

Selecting the sample:  
- sampling unit,  
- sample size,  
- sampling procedure.  
Questionnaire design.

January 2003:

Pre-testing of the questionnaire

14.02.2003.

Training for interviewers

February 2003:

Final formulation of the questionnaire

February/March 2003:

Interviewing process

April 2003:

Data entry and analyses

May/June 2003:

Further data analyses and report writing

## **PART THREE**

### **-RESEARCH RESULTS-**

- 1. CLIENT AND CONTROL GROUP CHARACTERISTICS**
- 2. IMPACT OF MICRO-LOAN PROGRAM ON HOUSEHOLD WELFARE**
- 3. IMPACT OF MICRO-LOAN PROGRAM ON BUSINESS ACTIVITIES**
- 4. IMPACT OF MICRO-LOAN PROGRAM ON SELF-EMPLOYMENTS/EMPLOYMENTS**
- 5. LOAN PRODUCT CHARACTERISTICS**
- 6. CONCLUSION/RECOMMENDATIONS**

## 1. Characteristics of clients and control group

In order to determine similarities between client group and comparison group the questionnaire includes information about settlement type, gender, type of accommodation, status, education and type of business activities.

### Parities between clients and control group

#### 1. Urban/Rural Environment

	Clients	Control group
Environment		
Urban	69%	61%
Rural	31%	39%
t = 0.8098                      t <sub>α</sub> = 4.3027 Not statistically significant at 0.05 level		

#### 2. Gender

	Clients	Control group
Gender		
Female	41%	44%
Male	59%	56%
t = 1.6552                      t <sub>α</sub> = 4.3027 Not statistically significant at 0.05 level		

#### 3. Type of Accommodation

	Clients	Control group
Accommodation		
Own-private accommodation	42%	40%
Collective	9%	8%
Rented accommodation	36%	31%
Accommodation – no rent	13%	21%
t = 0.8944                      t <sub>α</sub> = 2.4469 Not statistically significant at 0.05 level		

#### 4. Status

	Clients	Control group
Status		
Refugees	75%	73%
Internally displaced persons	15%	16%
Domiciles	10%	11%
t = 0.4508                      t <sub>α</sub> = 2.7765		
Not statistically significant at 0.05 level		

#### 5. Education

	Clients	Control group
Education		
Primary School	9%	9%
Craft	7%	16%
High School	64%	51%
Associate's Degree	14%	14%
BA	5%	9%
Higher than BA	1%	1%
t = 0.5299                      t <sub>α</sub> = 2.2281		
Not statistically significant at 0.05 level		

#### 6. Type of business

	Clients	Control group
Type of business		
Trade	23%	14%
Services	25%	48%
Production	9%	11%
Agriculture	23%	24%
Mixed	19%	4%
t = 1.0974                      t <sub>α</sub> = 2.3060		
Not statistically significant at 0.05 level		

Comparison of characteristics of clients and the control group shows the absence of statistically significant difference regarding any of the observed variables: urban/rural area, gender, type of accommodation, status, education, and type of business activity. The similarity enables the use of non-client group as the control group with the aim of the appraisal of micro-loan program's impact on the clients' household and business.

## 2. Impact of Micro-Loan Program on Household Welfare

### HOUSEHOLD PROPERTY

Question No. 8b

Changes in the level of investment in assets of client and non-client households in the last 12 months	Clients n=120 (fi)	Control group n=80 (nπi)		(χ <sup>2</sup> ) <sup>6</sup>
TV	21	20.1176		0.0387
Stove	12	13.4118		0.1486
Washing machine	11	24.5882		7.5093
Refrigerator	10	8.9412		0.1254
Vehicle /motorcycle	14	6.7059		7.9340
Livestock/Poultry	28	26.8235		0.0516
Computer/Rel.equip.	12	4.4706	13.4118	1.5697
Other Valuables	6	8.9412		
<b>Total</b>	114	114		17.3772

$$\chi^2 = 17.3772 \quad \text{DOF} = 5$$

$$\chi^2_{k-1; 1-\alpha} = \chi^2_{6; 0.95} = 12.5916$$

Ho = there is no statistically significant difference between the level of investment in the household assets of clients and non-clients  
 H<sub>1</sub> = there is statistically significant difference between the level of investment in the household assets of clients and non-clients

H<sub>1</sub> is accepted: There is statistically significant difference between the level of investment in the household assets of clients and non-clients

It seems that, compared to control group, clients have invested more in the household assets. The value of investments was not taken into consideration; only the number of items purchased (frequencies) was analysed<sup>7</sup>.

If the level of client's assets is regarded in the period before and after taking a first loan (see the next table), the improvement can also be observed.

<sup>6</sup>  $\chi^2 = (fi - n\pi i)^2 / n\pi i$

<sup>7</sup> Also in the questions no. 8, 9, 13, 29 the same model of analyses was used.

Question No. 8a-8c

Level of client household assets before and after taking a loan	Clients		$\chi^2$
	Current assets	Level of assets before the first loan	
TV	112	109.9333	0.0389
Stove	117	131.9200	1.6874
Washing machine	95	103.4667	0.6928
Refrigerator	107	120.2800	1.4662
Vehicle /motorcycle	72	72.4267	0.0025
Livestock/Poultry	44	23.2800	18.4415
Computer/Rel.equip.	20	11.6400	6.0043
Other Valuables	15	9.0533	3.9061
<b>Total</b>	<b>582</b>	<b>582</b>	<b>32.2397</b>

$$\chi^2 = 32.2397 \quad \text{DOF} = 5$$

$$\chi^2_{k-1; 1-\alpha} = \chi^2_{7; 0.95} = 14.0671$$

Ho = there is no statistically significant difference between the level of assets of client's households before and after taking a loan  
H<sub>1</sub> = there is statistically significant difference between the level of assets of client's households before and after taking a loan

H<sub>1</sub> is accepted: There is statistically significant difference between the level of assets of clients' households before and after taking a loan

As the table shows, the item Livestock/Poultry is very frequent among the client answers. The explanation for this could be in the fact that, besides people who live in villages, it is very customary for the people living in small towns and suburbs to also raise poultry and smaller livestock, especially in poor families. By raising their own livestock, families are providing meat for themselves at lower prices. This may also be an indication that food security in urban areas has not yet been reached. Therefore, the micro-loan program could be an additional mean for reaching food security in urban areas.

## HOUSEHOLD SAVINGS

Question No. 14

Amount of household savings	Clients n=120	Control group n=80		$\chi^2$
0 EUR	23	37.1875		5.4127
1-100 EUR	23	28.2625		0.9799
101-200 EUR	24	23.8000		0.0017
201-500 EUR	28	17.8500		5.7716
> 500 EUR	20	11.9000	11.9000	6.9588
Do not know	1	0.0000		
<b>Total</b>	<b>119</b>	<b>119</b>		<b>19.1247</b>

$$\chi^2 = 19.1247 \quad \text{DOF} = 5$$

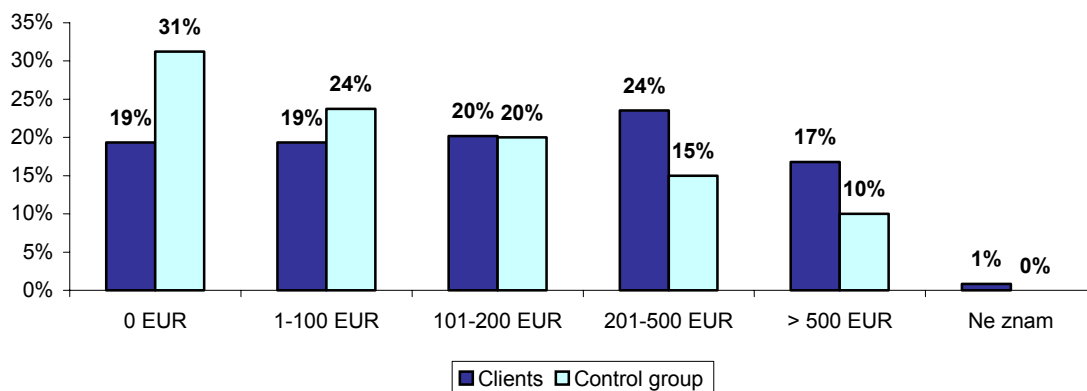
$$\chi^2_{k-1; 1-\alpha} = \chi^2_{4; 0.95} = 9.4877$$

$H_0$  = there is no statistically significant difference between the level of savings of client's and non-client's households

$H_1$  = there is statistically significant difference between the level of savings of client's and non-client's households

$H_1$  is accepted: There is statistically significant difference between the level of savings of client and non-client's households.

## Savings structure



The structure of savings refers that 31% of non-clients have said that they didn't have any savings, compared to 19% of clients. It is evident that larger number of clients (24%), compared to non-clients (15%), said that they possessed savings between 201 and 500 EUR. Also, larger number of clients (17%), compared to non-clients (10%), owns savings in amount higher than 500 EUR.

However, the cause for higher savings could be in the fact that clients tend to set aside certain amount of money to repay for the loan. On the other hand, it can be assumed that after taking a loan, clients become more disciplined with money and more structured with

managing their cashflow which could also be an explanation for higher savings. Qualitative research would be useful follow up for further understanding of these results.

Question No. 15

Household savings in the past 12 months	Clients n=120	Control group n=80		$\chi^2$
Decreased	36	46.1125		2.2177
Remained the same	52	59.5000		0.9454
Increased	31	13.3875	13.3875	23.1709
Do not know	0	0.0000		
<b>Total</b>	119	119		26.3339

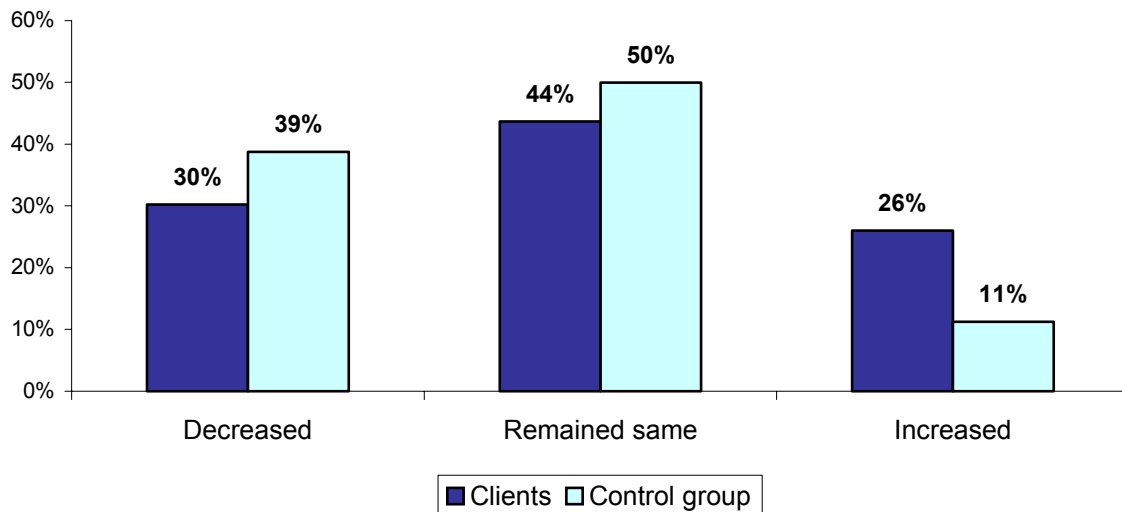
$$\chi^2 = 26.3339 \quad \text{DOF} = 5$$

$$\chi^2_{k-1; 1-\alpha} = \chi^2_{2; 0.95} = 5.9915$$

Ho = there is no statistically significant difference between the change in savings of clients compared to control group  
 H1= there is statistically significant difference between the change in savings of clients compared to control group

H<sub>1</sub> is accepted: There is statistically significant difference between the change in savings of clients compared to control group

**Savings in previous year**



If the participation of each group of answers and the type of change are being observed (negative–decrease; remained the same; positive-increase), it is evident that positive change is significantly larger in the case of clients compared to control group. On the other hand, larger number of non-clients said that their savings had decreased or remained the same in the last 12 months.

Similar situation is evident regarding the level of household income.

Level of household income in previous 12 months	Clients n=120	Control group n=80		$\chi^2$
Decreased	11	16.5000		1.8333
Remained the same	44	64.5000		6.5155
Increased	65	39.0000	39.0000	17.3333
Do not know	0	0.0000		
<b>Total</b>	120	120		25.6822

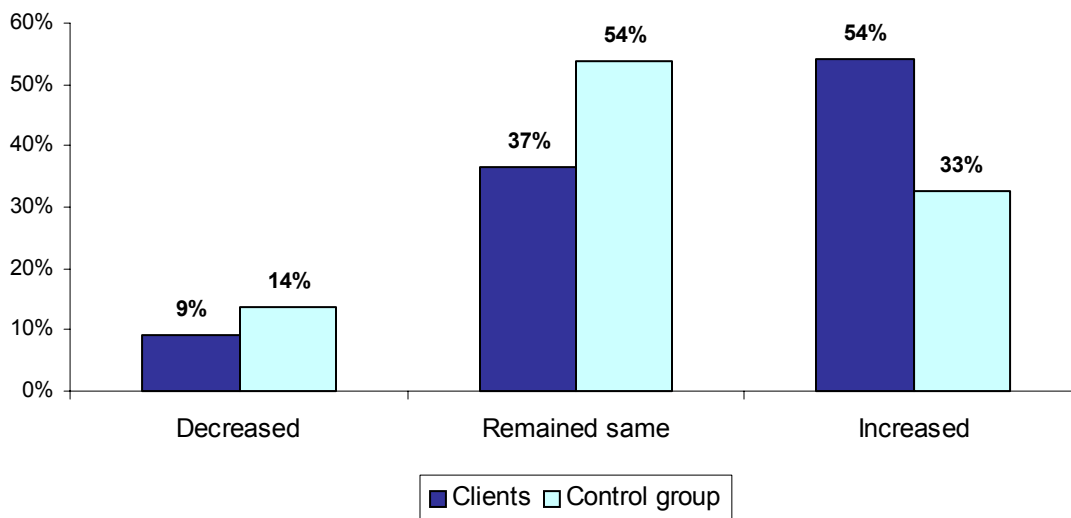
$$\chi^2 = 25.6822 \quad \text{DOF} = 5$$

$$\chi^2_{k-1; 1-\alpha} = \chi^2_{2; 0.95} = 5.9915$$

Ho = there is no statistically significant difference between the level of client's and non-client's household income  
 H1 = there is statistically significant difference between the level of client's and non-client's household income

H1 is accepted: There is statistically significant difference between the level of client and non-client's household income

**Household Income in previous 12 months**



Structure of answers indicates that positive change in income of client's households had large influence on creation of statistically significant difference compared to non-clients.

## HOUSING INVESTMENTS

Question No.13

Housing investments	Clients n=120	Control group n=80		$\chi^2$
House building	14	4.5185	19.5802	25.6710
House adaptation	28	15.0617		
Furniture purchasing	33	18.0741		12.3261
Something else related to the housing	15	12.0494		0.7225
None of the above-there was no money left	32	72.2963		22.4602
<b>Total</b>	122	122		61.1799

$$\chi^2 = 61.1799 \quad \text{DOF} = 5$$

$$\chi^2_{k-1; 1-\alpha} = \chi^2_{3; 0.95} = 7.8147$$

Ho = there is no statistically significant difference between the level of housing investments of clients and non-clients

H<sub>1</sub> = there is statistically significant difference between the level of housing investments of clients and non-clients

H<sub>1</sub> is accepted: There is statistically significant difference between the level of housing investments of clients and non-clients

Generally, there is statistically significant difference between the level of housing investments of clients and non-clients. But, in most cases, clients invested money in house adaptation and furniture purchasing. By cohesion of two last categories of answers in the questionnaire in one (*None of the above and There was no money left*), precision of answers has been reduced.<sup>8</sup>

The purpose of asking the question number 10a was finding out whether there had been a change in the quality of client's life.

Quality of life	Clients n=120	Control group n=80	$\chi^2$
Improved diet	85	83.0444	0.0461
Improved housing	64	69.5778	0.4471
Increased investment in the household members' education	53	49.3778	0.2657
<b>Total</b>	202	202	0.7589

<sup>8</sup> See Annex 3

$$\chi^2 = 0.7589 \quad \text{DOF} = 5$$

$$\chi^2_{k-1; 1-\alpha} = \chi^2_{2; 0.95} = 5.9915$$

Ho = there is no statistically significant difference in improvement in quality of life between clients and non-clients

H<sub>1</sub> = there is statistically significant difference in improvement in quality of life between clients and non-clients

Ho is accepted: there is no statistically significant difference in improvement in quality of life between clients and non-clients

Question No.10 b

Quality of life	Clients		$\chi^2$
	After taking a loan	Before taking a loan	
Improved diet	85	85.5026	0.0030
Improved housing	64	65.1958	0.0219
Increased investment in the household members' education	53	51.3016	0.0562
<b>Total</b>	202	202	0.0811

$$\chi^2 = 0.0811 \quad \text{DOF} = 5$$

$$\chi^2_{k-1; 1-\alpha} = \chi^2_{2; 0.95} = 5.9915$$

Ho = there is no statistically significant difference in improvement in quality of client's life before and after taking a loan

H<sub>1</sub> = there is statistically significant difference in improvement in quality of client's life before and after taking a loan

Ho is accepted: there is no statistically significant difference in improvement in quality of client's life before and after taking a loan

Although previously analyzed factors of standard of living (assets, savings, income, housing investments) indicate positive impact of micro loans on the client's well being, by explicitly asking a question whether their diet and housing were improved or investments in education had increased, statistically significant difference between clients and non-clients was not found.

It can be concluded that both, clients and non-clients, invested money in diet and education in the similar extent. But, besides these investments, previous analyses indicate that clients had also improved other aspects of standard of living in greater extent, compared to non-clients.<sup>9</sup>

<sup>9</sup> Formulation of category *Improved housing* was often unclear to both, clients and the comparison group. Due to inadequate formulation, results can be accepted with reserve. See more in Annex 3

### 3. Impact of Micro-Loan Program on Business Activities

#### INCOME FROM SALES

Analysis of the household income confirmed that there is a statistically significant difference at the household income level between clients and control group. Also, it is confirmed that the increment of clients' household income compared to the control group household income is the most influensive parameter in generating statistically significant difference. In the follow-up of this report, it will be analyzed whether the above-mentioned parameters can be assigned to the income earned from the interviewee's business activity.

Question No. 30

Level of income in the previous 12 months	Clients n=120	Control group n=80		$\chi^2$
Lower	19	35,7000		7,8120
About the same	51	53,5500		0,1214
Higher	42	25,2875	29,7500	12,4559
Not applicable	7	4,4625		
<b>Total</b>	119	119		20,3894
$\chi^2 = 20,3894$ DOF = 5 $\chi^2_{k-1; 1-\alpha} = \chi^2_{2; 0.95} = 5,9915$				

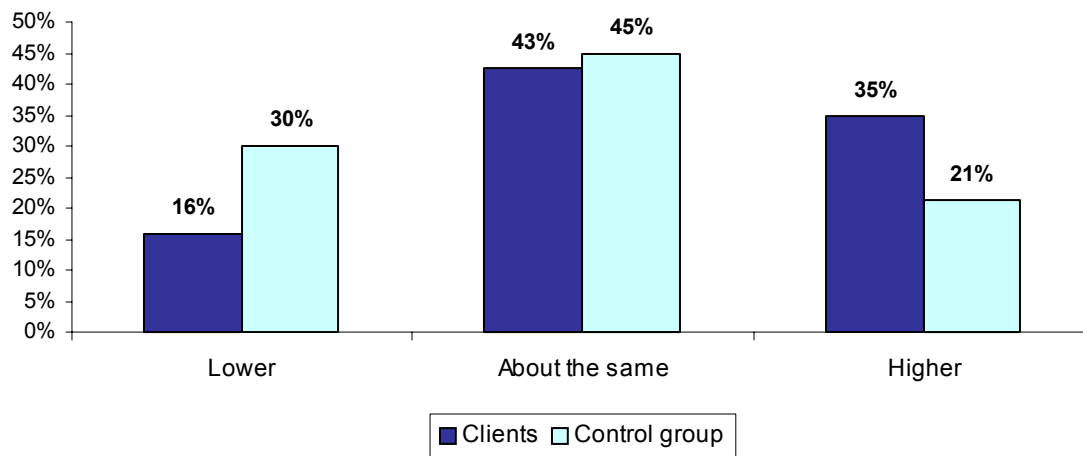
Ho = there is no statistically significant difference at the level of income from sales between clients and control group

H<sub>1</sub> = there is statistically significant difference at the level of income from sales between clients and control group

H<sub>1</sub> is accepted: there is statistically significant difference at the level of income from sales between clients and control group

The table above shows that there is statistically significant difference at the level of income from sales between clients and control group in January 2003 compared to January 2002. Through separate/individual observing of the participation of the answers and types of change, it can be concluded that positive change is more significantly present in the clients group than in the control group (35% of clients consider their income increased, while the percentage of non-clients that responded the same is 21%). On the other hand, 30% of non-clients said that their income was lower, while 16% of clients think the same. Participation of response "About the same" in the whole structure of responses is similar.

**Business Income in previous 12 months**



Similar situation can be observed regarding the business profit.

**PROFIT**

Question No. 31

Level of profit in the previous 12 months	Clients n=120	Control group n=80		$\chi^2$
Lower	30	47,2000		6,2678
About the same	50	50,1500		0,0004
Higher	31	16,2250	20,6500	14,5774
Not applicable	7	4,4250		
<b>Total</b>	118	118		20,8456

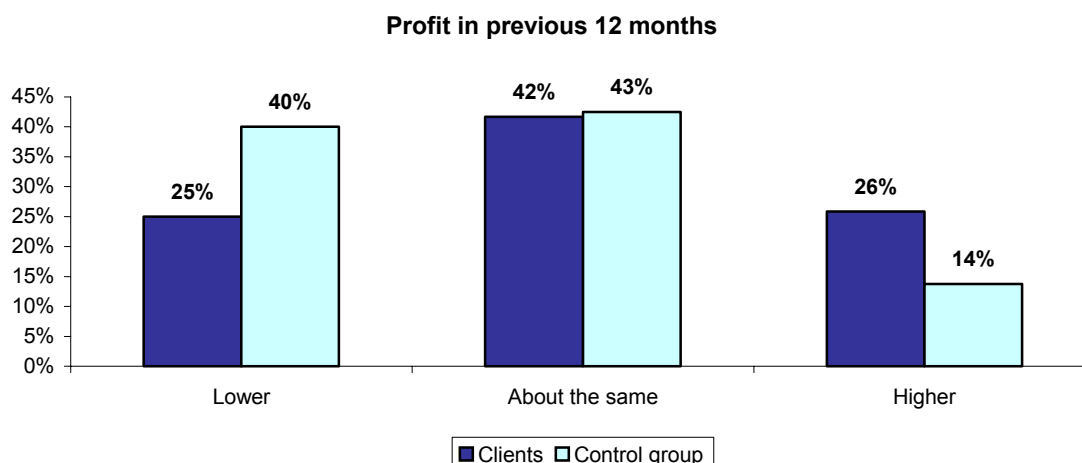
$\chi^2 = 20,8456$       DOF = 5

$\chi^2_{k-1; 1-\alpha} = \chi^2_{2; 0,95} = 5,9915$

Ho = there is no statistically significant difference at a profit level between clients and control group

H1= there is statistically significant difference at a profit level between clients and control group

H1 is accepted: there is statistically significant difference at a profit level between clients and control group



Structure of responses indicates that the largest participation in generating significant difference had the positive change (increment of profit) on the clients' side. It can be also noted that the participation of negative change (decrement of profit) is larger on the non-clients' side. Difference in the participation of responses "About the same" between clients and non-clients can be disregarded.

Analysis of the reasons behind the decrement/increment of profit provides the additional information on the impact of the DRC MDF micro-loan program on clients' businesses.

### Reasons behind profit variations

Question No.33

Reasons for lower profit in January 2003 in comparison to January 2002	Clients n=30	Control group n=32
Increased competition	37%	22%
Decreased purchasing power / lower demand	97%	72%
Increased cost of materials	30%	16%
Legal regulations (inspections, registration...)	20%	22%
Robbery or theft	10%	6%
Temporary closure of business (e.g. due to illness, breakdowns, etc)	17%	22%
Bad debts (customers not paying)	23%	16%
Other	13%	22%

As the reason behind lower profits, 97% of clients stated "Decreased purchasing power / lower demand". Also, the majority of non-clients (72%) connects the drop in profits with the same factor. Other reasons were, more or less, equally mentioned both by clients and non-clients. Statistical test did not confirm significant difference between clients and non-clients related to the reasons behind the drop in profits.

## Question No. 32

Reasons for higher profit in January 2003 in comparison with January 2002	Clients n=31	Control group n=11
Increased purchasing power or increased demand	35%	27%
Moved to better market location	10%	9%
Added new products or services	48%	27%
Able to buy inputs at cheaper price	16%	0%
Lower rent or other operating costs	3%	0%
Have better equipment, machines or tools	29%	18%
Improved management/qualifications	6%	0%

Statistical test shows that there is no significant difference between the two groups regarding the reasons for the growth in profits. However, if we look at the percentages of responses, it can be observed that 16% of clients see the reason for the growth in profits in “Able to buy inputs at cheaper price”, while **none** of the non-clients stated that as a reason. That can be explained by the fact that in Serbia, generally, assets can be provided at a cheaper price if they are paid with cash. DRC/MDF disbursed cash loans, which, as it will be shown later, clients consider the major advantage of our loan product.

## BUSINESS IMPROVEMENTS/POSITIVE CHANGES

## Question No.28b

Business improvements in previous 12 months	Clients n=120	Control group n=80		$\chi^2$
Expanded/renovated physical premises	37	35.6129		0.0540
Increased level of the existing production/services	69	53.4194		4.5444
Added new products / services	53	62.3226		1.3945
Hired more workers	15	8.9032		4.1750
Improved quality of product / service	47	68.2581		6.6205
Reduced costs	19	17.8065		0.0800
Sold in new markets/locations	36	26.7097	29.6774	1.3470
Other	0	2.9677		
<b>Total</b>	276	276		18.2154

$$\chi^2 = 18.2154 \quad \text{DOF} = 5$$

$$\chi^2_{k-1; 1-\alpha} = \chi^2_{6; 0.95} = 12.5916$$

Ho = there is no statistically significant difference at the level of business changes between clients and non-clients

H<sub>1</sub> = there is statistically significant difference at the level of business changes between clients and non-clients

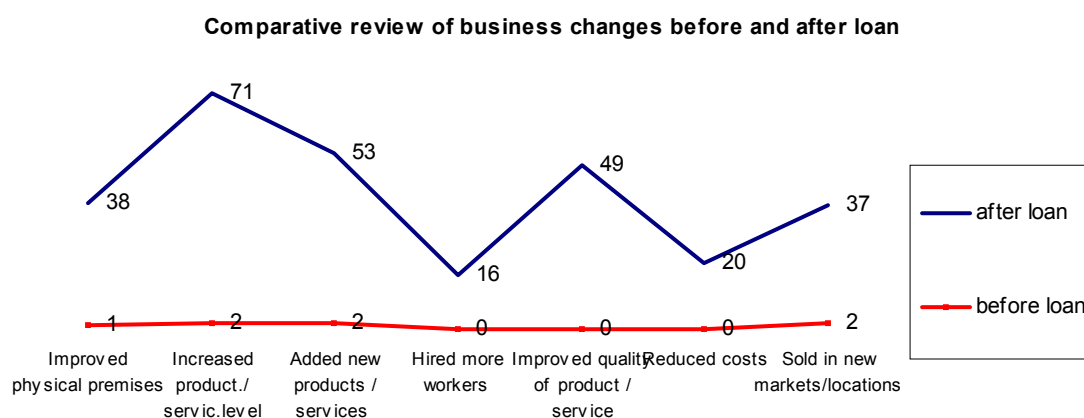
H<sub>1</sub> is accepted: there is statistically significant difference at the level of business changes between clients and non-clients

Analyzing the table on previous page, it can be noted that there is a positive change in the businesses conducted by the clients compared to non-clients regarding categories “Increased level of the existing production/services” and “Hired more workers”. Non-clients, deprived by loan money, have focused more on the improvement of quality of product/service, thus the higher participation of this response on non-clients’ side has also contributed to the generation of the statistically significant difference.<sup>10</sup>

After comparing the present conditions with conditions before taking the **first** loan, the growth of positive changes can also be noticed by analyzing the same (above mentioned) categories within client group.

Question No.28a-28c

Business improvements - before and after loan	Clients	
	after loan	before loan
Improved physical premises	38	1
Increased level of production/services	71	2
Added new products/services	53	2
Hired more workers	16	0
Improved quality of product/service	49	0
Reduced costs	20	0
Sold in new markets/locations	37	2
Other	0	0
<b>Total</b>	284	7



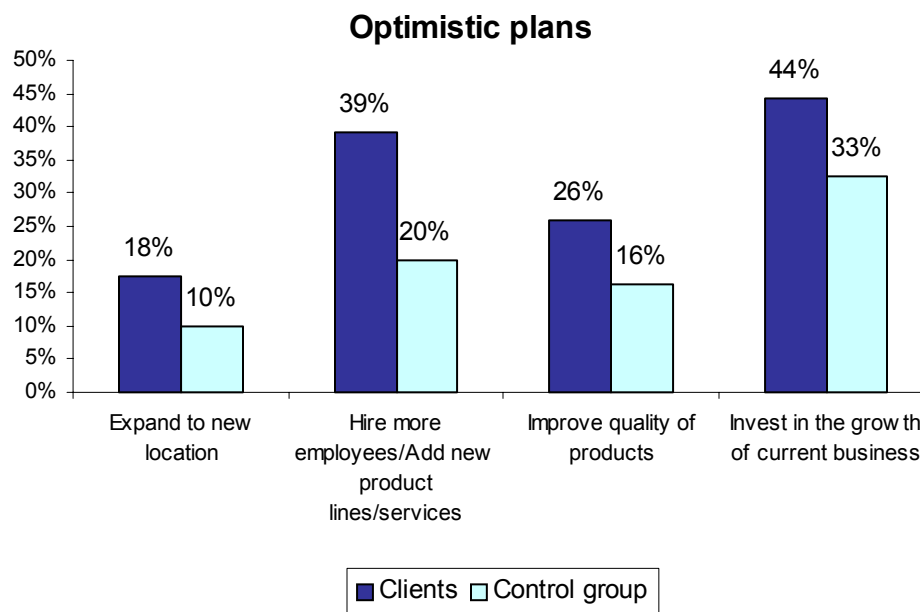
<sup>10</sup> However, these results should be taken with reserve because of the insufficient exclusion of questions with multiple possible responses. See more in the Annex No. 3

Regarding the business plans for upcoming 12 months, it is noticeable that higher percentage of clients compared to non-clients has optimistic plans for business growth (such as expanding to the new location, hiring more employees, adding new product lines/services, improving products quality, further investments in the growth of current business). On the other hand, higher percentage of non-clients plans to stay at the same business level or to close the business.

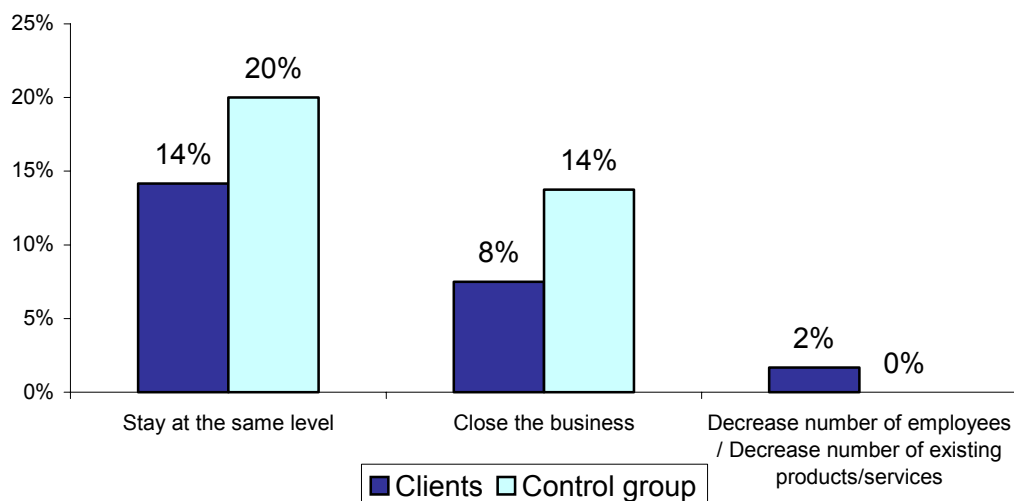
This could imply that after taking the loan and due to possibility to apply for repeated loan, clients have better opportunity to plan their business growth.

Question No. 34

Business plans for next 12 months	Clients	Control group
Expand to new location	18%	10%
Hire more employees/Add new product lines/services	39%	20%
Improve quality of products	26%	16%
Invest in the growth of current business	44%	33%
Stay at the same level	14%	20%
Close the business	8%	14%
Decrease number of employees / Decrease number of existing products/services	2%	0%
Other	11%	6%
Do not know	1%	3%



### Pesimistic plans



### Problems related to the business

Question No.35

Problems related to the business	Clients	Control group
Increased competition / Insufficient market for goods	44%	44%
High taxes	18%	8%
High rent	3%	1%
Lack of knowledge and skills	1%	3%
Legal or regulatory problems	10%	10%
Decreased purchasing power of customers	52%	53%
Personal reasons	8%	8%
Other	31%	30%

Both groups of interviewees have similarly defined the main problems that caused the difficulties in realization of business activities. Thus, it can be concluded that, both clients and control group, have been exposed equally to the unfavourable influence of the external factors. This could mean that the variables, which might have obstructively influenced the positive impact of the loan, have had the same influence on the control group. Thus, they can be disregarded in the analyses.

**LOAN USE: Differentiation between business activity and household**Loan use for business:Question No. 18<sup>11</sup>

Response	Clients N=120
Starting a new business	25%
Buying equipment, machines or tools	48%
Reproduction: Purchase more stocks, materials or supplies	52%
Paying for other business operating expenses (salaries, taxes, rent)	5%
Held as savings	3%
Added business space	5%
Hiring more workers	1%
Paying for debts related to the business	10%
Other business use	3%
None of the above (not for business use)	3%

These results indicate that DRC/MDF clients invest their loans mainly in business assets and working capital.

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<sup>11</sup> Questions are not exclusive. Multiple answers possible.

Loan use for household:Question No.19<sup>12</sup>

Percentage of clients that used a portion of the last loan to:	Clients N=120
Buy food for family	17%
Buy clothes, pay electricity, rent	8%
Give or lend money to the spouse or someone else	6%
Keep money on hand in case of an emergency	23%
Keep money on hand to repay the loan	36%
Pay for education for your children	6%
Pay for household improvements	9%
Renovate house/ buy land	13%
Cover some unforeseen costs (illness, death...)	5%

High percentage of clients used a portion of their last loan as an emergency fund in case of any problems (23%), as well as for repaying the loan itself (36%). The portion of the loan set aside is completely unproductive. This survey will later show that the one of the reproaches clients have regarding the DRC/MDF micro-loan program is the lack of grace period. That could be an explanation for such a high percentage of clients that set aside a portion of their loans.

It can be also noted that high percentage of clients used a portion of their last loan for the consumption, e.g. to buy food, clothes, pay electricity, rent. This question (No.19) is formulated in a way that does not provide the information what is the exact proportion of the loan used for such purposes.

Even though it is not explicitly stated which portion of the loan was used for the business and which one for the household purposes, the question No. 20 offered clients the opportunity to rank the use of loan in three categories: Largest amount was spent for ...Second largest amount was spent for... Third largest amount was spent for... After the answers have been processed, the following results came out:

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<sup>12</sup> Questions are not exclusive. Multiple answers possible.

## Question No. 20

Use of loan	Clients N=120
Entirely in business purposes	42%
Larger portion used in business purposes	38%
Smaller portion used in business purposes	17%
Not in business purposes	3%

The results show that **80%** of clients used their loans entirely or mainly in business purposes. 17% of clients used a smaller portion of loan for business while the rest was spent for household purposes. Finally, 3% of clients did not use the loan in business purposes.

Use of loan - Clients in first loan cycle	Clients N=75
Entirely in business purposes	52%
Larger portion used in business purposes	39%
Smaller portion used in business purposes	5%
Not in business purposes	4%

Use of loan - Clients in repeated loan cycle	Clients N=45
Entirely in business purposes	25%
Larger portion used in business purposes	36%
Smaller portion used in business purposes	36%
Not in business purposes	2%

Having results divided by loan cycles (first and repeated loan), it can be concluded that high percentage of clients in the first cycle have used their loans entirely or mainly in business purposes (**91%**), while 61% of clients in repeated cycles used the loan in same way. It is in DRC/MDF practice to more closely monitor the use of the first loan (new clients provide the written confirmation/bill/receipt regarding items purchased by loan money).

High percentage of clients in repeated loan cycles used a smaller portion of their last loan in business purposes (36%). This indicates that there is a need for more frequent monitoring of repeated clients. However, if we analyse the answers repeated clients gave, it can be noted that those clients had used a larger portion of the loan mainly for a house renovation/buying land or for the purchasing of a household appliances. This refers to a conclusion that the organization might have considered to introduce new loan products,

such as loans for house/apartment renovation, furniture and household appliances purchasing and other.

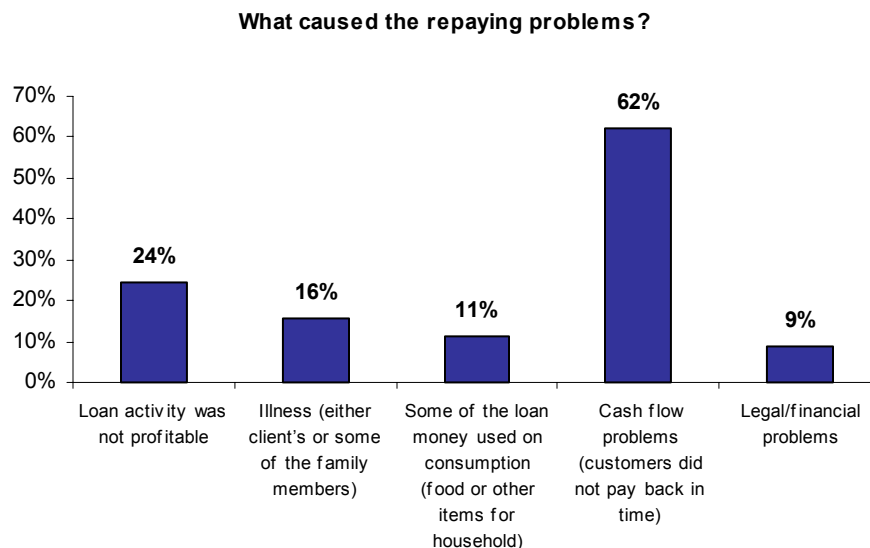
### Difficulties in loan repayment

37.5% of clients answered positively on the question whether there were any problems in loan repayment.<sup>13</sup>

The most often cause, stressed out by 62% of clients, is that they had cash-flow problems since their customers did not pay on time. This answer reflects the overall general picture of Serbia during transition period, where, due to lack of money, even larger and more stable companies suffer from the same problems.

Clients' illness (or illness of some of the family members) is the cause of repayment problems in 16% of the cases.

Question No. 36<sup>14</sup>



24% of clients stated that the business they run came out as not profitable enough. Cases where loan was partially used for household expenses, thus unproductively, brought repayment problems to 11% of clients.

It can be concluded that when the loan is not solely (or its largest portion) used for its original purpose, the problems in repayment often occur. To avoid or to maximally reduce these problems, it is of great necessity to pay attention to financial analyses, client selection and monitoring. Also, it should be analysed whether the loan product is appropriate for clients (whether monthly installments are too large etc.)

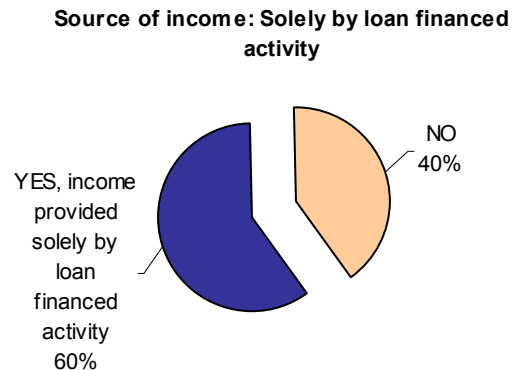
<sup>13</sup> Percentages in this passage are related to 45 clients who answered that there had been problems in loan repayment.

<sup>14</sup> Multiple answers possible.

#### 4. Impact of Micro-Loan Program on Self-employment/Employment

Question No. 5

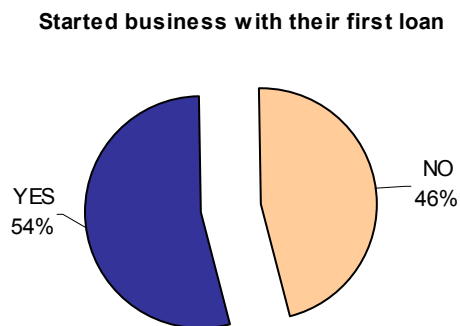
One of the indicators regarding impact on employment is the percentage of clients whose loan activity is the only income-providing activity.



60% of clients generate income **solely by the business activity for which they have taken a loan**, while 40% are engaged in other business activities besides the loan activity.

Out of 60% of the clients engaged only in the business activity for which they have taken a loan, 54% invested money from the first loan to start a business<sup>15</sup> and thus created their own employment.

Question No.16



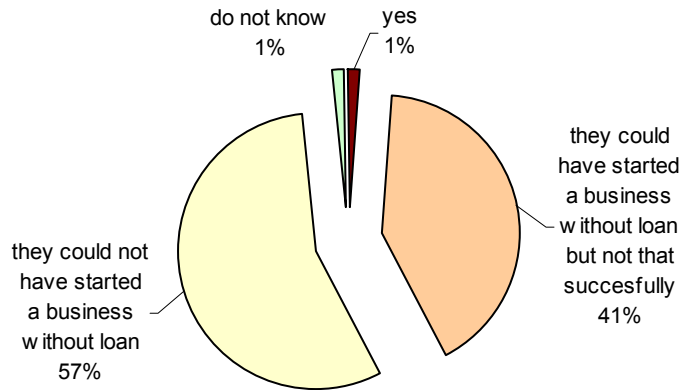
If the total number of interviewed clients is being observed, the proportion of those that employed themselves by taking a first loan is 33%.

<sup>15</sup> Out of total number of clients in the survey sample (120), 71 (60%) used the money from the first loan to start a business.

Importance of loan for starting a business

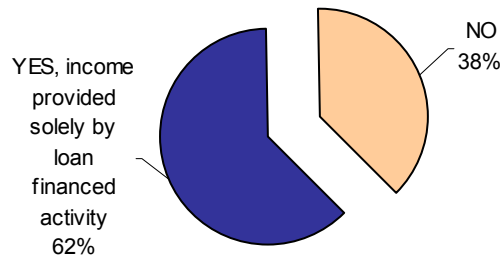
Question No.17

57% of clients stated that they could not have started a business without the loan they had taken from DRC/MDF. 41% thinks that they could have started a business without the loan but not that successfully. Only 1% considers that they could have started a business without DRC/MDF loan.

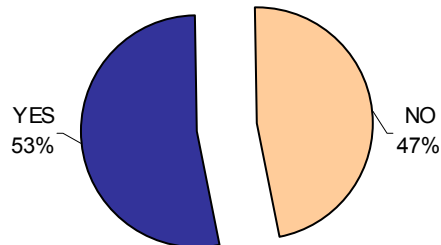


Situation is similar when women clients are taken into consideration.

**Source of income: Solely by loan financed activity - Women**

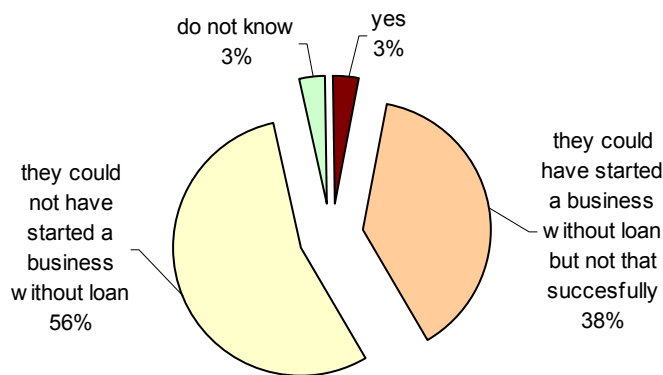


**Started business with their first loan - Women**



53% of women clients of those whose income is provided solely by loan activity, employed themselves by taking a first loan. If the total number of interviewed women clients is being observed, the proportion of those that employed themselves by taking a first loan is 33%.

Importance of loan for starting a business for women clients



56% of women clients stated that they could not have started a business without the loan they have taken from DRC/MDF, while another 38% think that they could have started a business without a loan but not that successfully. Only 3% considers that they could have started a business without DRC/MDF loan.

STRUCTURE AND ACCRETION OF EMPLOYEES

Unemployment presents one of the most difficult economic and social problems in Serbia. Also, it is not unusual that many people employed in registered businesses are very often paid on the black. So, it should be considered that "paid workers" refers to officially registered and paid employees as well as employees paid on the black, no matter whether they work in registered or non-registered businesses.

Questions No. 26-27

Year	Clients		
	(a) Paid workers	(b) Unpaid family/ friends	(c) Total
2003	97	163	260
2002	77	153	230
Accretion	20	10	30
Proportion	0,6667	0,3333	1

Year	Control group		
	(a) Paid workers	(b) Unpaid family/ friends	(c) Total
2003	13	83	96
2002	8	75	83
Accretion	5	8	13
Proportion	0,3846	0,6154	1

Z = 1,7218

Z<sub>α</sub> = Z<sub>5%</sub> = 1,6449

Ho = there is no statistically significant difference at the level of accretion of paid workers between clients and control group  
 H<sub>1</sub> = there is statistically significant difference at the level of accretion of paid workers between clients and control group

H<sub>1</sub> is accepted: there is statistically significant difference at the level of accretion of paid workers between clients and control group

Statistical test indicates that there is significant difference at the level of accretion of paid workers between clients and control group. Positive impact of the micro-loan program on the creation of new and paid employments is evident.

Questions No. 26-27

Clients				Control group			
Year	(a) Paid workers	(b) Unpaid family/ friends	(c) Total	Year	(a) Paid workers	(b) Unpaid family/ friends	(c) Total
2003	97	163	260	2003	13	83	96
2002	77	153	230	2002	8	75	83

Accretion	20	10	30	Accretion	5	8	13
Proportion	0,6667	0,3333	1	Proportion	0,3846	0,6154	1

$$Z = -1,7218$$

$$Z_{\alpha/2} = Z_{2,5\%} = -1,9600$$

Ho = there is no statistically significant difference at the level of accretion of unpaid workers between clients and control group  
 H<sub>1</sub> = there is statistically significant difference at the level of accretion of unpaid workers between clients and control group

H<sub>1</sub> is not accepted; Ho is accepted: there is no statistically significant difference at the level of accretion of unpaid workers between clients and control group

Concerning unpaid workers (family members, friends), there is no statistically significant difference at the level of accretion between clients and control group.

Results from the upper two tables could suggest that the access to the loan money might have offered clients the opportunity to create new - paid employments. Non-clients, on the other hand, probably had to rely more on unpaid workers – family members and friends.

## 5. Loan product characteristics

One of the aims of this survey was to determine whether the current loan product characteristics corresponded to the clients needs.

DRC/MDF loan product characteristics **appropriate** to clients needs

Question No. 38<sup>16</sup>

Loan Characteristic	
Cash disbursement	64%
Simple procedure/Efficient pay-out	63%
Possibility to take the repeated loan	37%
No up-front fee	28%
Reliable source of capital/Access to capital	21%
Appropriate Loan size	14%
Favorable Interest rate	14%
Professionalism of Loan staff	13%
Other characteristics	28%

For 64% of clients cash disbursement is one of the three best characteristics of loan product. Having in mind that cash payments enable purchasing of working assets at a cheaper price, such high percentage was expected.

63% of clients highly appreciate simple procedure and efficient loan payout. Maximal duration of period between the application submitting and disbursing is two weeks. Taking into consideration clients' opinion, DRC/MDF decided to point out the simple procedure as the one of loan product's quality determinants.

Possibility to take the repeated loan is positive loan characteristic for 37% of clients, because it enables them to plan the development of their businesses for a longer period of time. Repeated loan can be up to 50% larger than the previous and with a longer loan term (max 18 months). During the first site visit, loan officers emphasize that possibility as the augmentative offer of DRC/MDF loan product.

28% of clients considers the fact that the DRC/MDF does not charge up-front fee as one of DRC/MDF loan product's advantages. Taking into account clients' opinions as well as financial parameters of the organization, DRC/MDF decided to postpone the previously planned introduction of an up-front fee.

<sup>16</sup> Open-ended question. Clients stated three loan characteristics that are most appropriate to their needs.

DRC/MDF loan product characteristics **less appropriate** to clients needsQuestion No. 39<sup>17</sup>

Loan Characteristic	
High Interest Rate	68%
Penalty Rate	43%
Short Loan Term	38%
Lack of grace period	35%
Low Loan Size	11%
Transaction costs	11%
Collateral policy	10%
Other characteristics	22%
Nothing	8%

Clients found high interest rate as the least suitable loan characteristic. Having in mind the DRC previous lending history – interest-free loans as a part of humanitarian aid to the same target group (refugees), such high percentage of the answers (68%) was expected. Still, taking into consideration clients' opinion as well as other factors, DRC/MDF decided to introduce a bonus system and lower interest rates for repeated loans.

43% of clients have negatively evaluated the penalty rate. DRC/MDF assessed in details some clients' credit portfolios and found that in most of cases penalty rate was additional burden to clients whose businesses were in some difficulties and it was also found that the penalty rate wasn't efficient in the prevention of the delinquency in the expected manner. According to that analyses and taking into account clients' opinion regarding the penalty rate, organization decided to decrease the penalty rate.

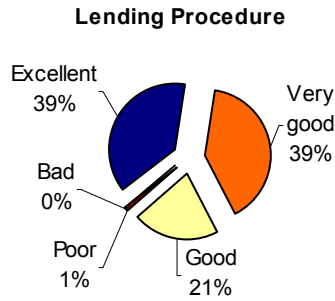
38% of clients estimate that the loan repayment period is too short. Since the DRC/MDF loans are short-term loans, it is not in DRC/MDF plans to introduce based on results of this survey, any changes regarding this issue. What DRC/MDF does plan is to organize a qualitative analyses of clients satisfaction through focus groups, where this issues as well as other questions could be more thoroughly analysed. The same situation stands for the lack of grace period, which is the least appropriate loan characteristic for 35% of clients. However, it should be mentioned that the one of the additional offers of DRC/MDF loan product presents the possibility of cycling payments in accordance with production cycle as well as possibility to have smaller amounts of first three payments.

8% of clients stated that they do not have any reproach towards DRC/MDF loan product.

Next group of questions deals with particular loan product characteristics: lending procedure, interest rate, loan term and collaterals. Clients were offered closed-ended questions with only one possible response to choose (except question regarding collaterals; multiple answers were possible).

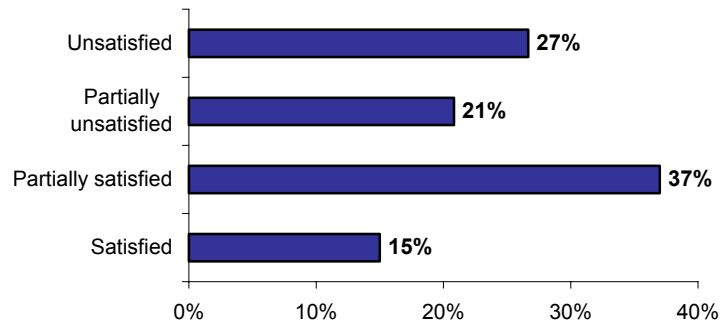
<sup>17</sup> Open-ended question. Clients stated three loan characteristics that are least appropriate to their needs.

Questions No. 40-43



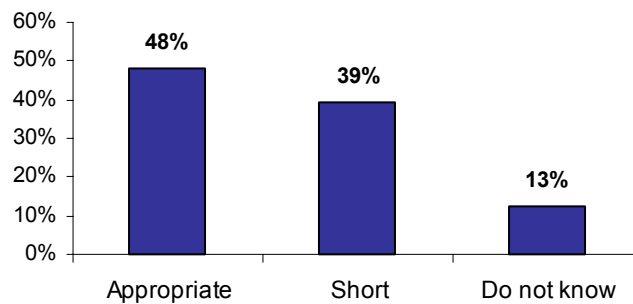
Majority of clients (78%) considers the lending procedure excellent or very good. Only 1% of clients stated that the lending procedure is poor or bad (0%).

**Interest Rate - level of satisfaction with**

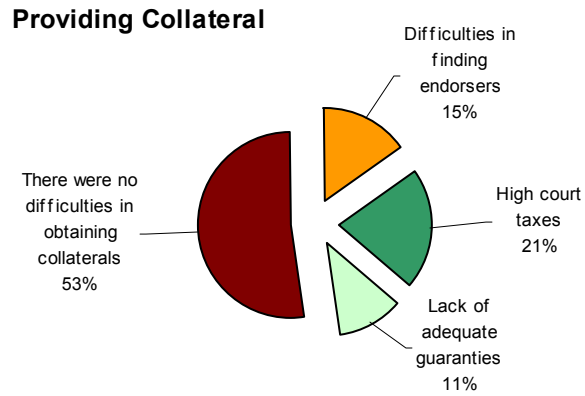


48% of clients assign the negative connotation to the satisfaction with the interest rate, while the rest of clients (52%) are partially satisfied/satisfied.

**Loan term**



Loan repayment period is appropriate for 48% of clients, while 39% considers it too short.



21% of clients consider court taxes being too high (court taxes amount from 0,5% to 2% of the loan amount) while 26% of clients had difficulties in finding endorsers or adequate guaranties. DRC/MDF has managed to mitigate this problem through constant simplifying of the procedure regarding collateral demands. Still, 53% of clients did not face any difficulties in obtaining collaterals.

## 6. Conclusions/Reccommendations

### Conclusion:

#### Hypothesis 1:

*Micro loan program creates an improvement in the economic situation of the clients' family livelihood.*

Indicators used for measuring the influence of micro loan program on the household economic situation are: assets owned by the family, the level of savings, household income and larger investments (building/adaptation of house).

- There is statistically significant difference between the level of investment in the household assets of clients and non-clients, and also there is statistically significant difference between the level of assets of clients' households before and after taking a loan.
- Compared to the comparison group, it seems that clients own higher level of savings. Also, more than one quarter of clients (26%) declared that the savings of their household had increased in the last 12 months (compared to 11% of non-clients). On the other hand, larger number of non-clients (39%) compared to 30% of clients, declared that their household savings had decreased in the last 12 months.
- Similar situation is evident regarding the level of household income. Statistical tests show that there is statistically significant difference between the level of client and non-client's household income. Namely, 54% of clients declared that their household income had increased, compared to 33% of non-clients. On the other hand, larger number of non-clients (14%) compared to 9% of clients, declared that their household income had decreased compared to the same period the year before.
- There is statistically significant difference between the level of housing investments (investments are made mostly in house adaptation and furniture purchasing) of clients and non-clients.

Considering all analyzed factors, it can be concluded that compared to control group, client's household have improved their standard of living in larger extent. Also, larger number of clients improved their family well being compared to the period before taking a loan. These results suggest that micro loan program have influenced improvement of economic situation of clients and their family livelihoods.

**Hypothesis 2:**

*Continued access to micro loans offers better opportunities for planning and development of the clients' businesses.*

The indicators for measuring impact of micro-loan program on clients' businesses were: level of business income/profit and business improvements. Following results came out from the analyses:

- There is statistically significant difference at the level of income from sales between clients and control group. More than one third of the clients (35%) considers that their income has increased in previous 12 months, while the percentage of non-clients that responded the same was 21%. On the other hand, 30% of non-clients and 16% of clients consider that their income has decreased in the same period.

- Regarding profits, it is also confirmed that there is statistically significant difference at the profit level between clients and control group. 26% of clients versus 14% of non-clients recorded growth in profits in the previous year, while on the other hand, 40% of non-clients and 25% of clients stated decrement in the same period.

Reasons behind profit variations between clients and non-clients are not significantly different.

- There is statistically significant difference at the level of business changes between clients and non-clients.<sup>18</sup> After comparing the present conditions with conditions before taking the first loan, the growth of positive changes in all categories can be noticed.

- Regarding the business plans for upcoming period, it is noticeable that higher percentage of clients compared to non-clients has optimistic plans for business growth (such as expanding to the new location, hiring more employees, adding new product lines/services, improving products quality, further investments in the growth of current business). On the other hand, higher percentage of non-clients plans to stay at the same business level or to close the business.

- Regarding problems related to the business, both groups of interviewees have similarly defined main problems that caused the difficulties in the realization of business activities. Thus, it can be concluded that, both clients and control group, have been exposed equally to the unfavourable influence of the external factors. This could mean that the variables, which might have obstructively influenced the positive impact of the loan, have had the same influence on the control group. Thus, they can be disregarded in the analyses.

- Additional factor in the analyses of the impact of micro-loan program is the use of loan. Analyses of loan use show that 80% of clients used their loans entirely or mainly in business purposes (mainly for business assets and working capital). 17% of clients used a smaller portion of loan for business purposes while the rest was spent for household purposes. 3% of clients did not use the loan in business purposes. Having results divided by loan cycles (first and repeated loan), it can be concluded that high percentage of clients in the first cycle used their loans entirely or mainly for business purposes (91%), while 61% of clients in repeated cycles used the loan in same way. High percentage of clients in repeated loan cycles used a smaller portion of their last loan in business purposes (36%). This indicates that there is a need for more frequent monitoring of

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<sup>18</sup> However, these results should be taken with reserve because of the insufficient exclusion of questions with multiple possible answers: See Annex 3

repeated clients. However, if we look more in depth at the answers repeated clients gave, it can be noted that those clients had used a larger portion of the loan mainly for house renovation/buying land or for the purchasing of household appliances. This refers to a conclusion that the organization might have considered to introduce new loan products, such as loans for house/apartment renovation, furniture and household appliances purchasing and other.

Having considered all analyzed factors, it can be concluded that compared to the control group, clients have more significantly improved their businesses in the observed period of time. It can also be concluded that the clients' businesses are improved in relation to period before taking a first loan. These results indicate that the micro-loan program had positive impact on development and planning of clients' businesses.

**Hypothesis 3:**

*Micro loan program offers possibility for self-employment through either the start up of new businesses or the development of existing ones.*

Indicators used for measuring the impact of micro-loan program on self-employment/employment were: percentage of clients whose income is provided solely by loan activity, percentage of clients that started the business with their first loan, number of paid/unpaid workers. These are some of the main results:

- 60% of clients generate the income solely by the business activity for which they have taken a loan.
- 60% of clients used the money from the first loan to start a business.
- 33% of clients generate the income solely by the business activity for which they have taken a loan (that is the only business activity they are engaged in). At the same time, they used the money from the first loan to start a business creating the employment for themselves.
- Regarding number of workers (when comparing the year 2002 and the year 2003) statistically significant difference at the level of accretion of paid workers between clients and control group is confirmed. On the other hand, there is no statistically significant difference at the level of accretion of unpaid workers – family members and friends. Results suggest that the access to the loan money might have offered clients the opportunity to create new - paid employments. Non-clients, on the other hand, probably had to rely more on unpaid workers – family members and friends.

Taking into account all analysed indicators it can be concluded that micro-loan program offers possibility for self-employment of the clients. It can be also concluded that, in the observed period of time, micro-loans have contributed to the substantial accretion of new employments within the client group compared to the accretion of employments within the control group. These results indicate the positive impact of micro-loan program on creation of new employments.

**Hypothesis 4:**

*Characteristics of the loan product are in accordance to the clients' needs.*

• For 64% of clients cash disbursement is one of the three best characteristics of loan product. Having in mind that cash payments enable purchasing of working assets at cheaper price, such high percentage was expected.

63% of clients highly appreciate simple procedure and efficient loan payout. Taking into consideration clients' opinion, DRC/MDF decided to point out the simple procedure as the one of loan product's quality determinants.

Possibility to take the repeated loan is positive loan characteristic for 37% of clients, because it enables them to plan the development of their businesses for a longer period of time.

28% of clients considers the fact that the DRC/MDF does not charge up-front fee as one of DRC/MDF loan product's advantages. Taking into account clients' opinions as well as financial parameters of the organization, DRC/MDF decided to postpone the previously planned introduction of an up-front fee.

• Regarding least appropriate loan characteristics according to the clients' opinion, the least suitable loan characteristic is high interest rate. Having in mind the DRC previous lending history – interest-free loans as a part of humanitarian aid to the same target group (refugees), such high percentage of the answers (68%) was expected. Still, taking into consideration clients' opinion as well as other factors, DRC/MDF decided to introduce a bonus system and lower interest rates for repeated loans.

43% of clients have negatively evaluated the penalty rate. DRC/MDF, according to the credit portfolios' analyses and taking into account clients' opinion regarding the penalty rate, decided to decrease the penalty rate.

38% of clients estimate that the loan repayment period is too short. Since the DRC/MDF loans are short-term loans, it is not in DRC/MDF plans to introduce, based on results of this survey, any changes regarding this issue. What DRC/MDF does plan is to organize qualitative analyses of clients' satisfaction through focus groups, where this issues as well as other questions could be more thoroughly analysed.

The same situation stands for the lack of grace period, which is the least appropriate loan characteristic for 35% of clients. However, it should be mentioned that one of the additional offers of DRC/MDF loan product presents the possibility of cycling payments in accordance with production cycle as well as the possibility for having smaller amounts of first three payments.

<p>It can be concluded that the loan product characteristics are generally in accordance to the clients' needs, while some of the loan product aspects are yet to be improved and adjusted to the clients' needs. On the basis of preliminary results of this survey, some loan product characteristics have been already changed (such as the introduction of bonus system and lower interest rates for repeated loans as well as lower penalty rate).</p>
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### **Recommendations for the improvement of the program:**

- Regarding savings, it is recommended to conduct a qualitative research for further understanding of results of this survey.
- Considering high percentage of clients in repeated loan cycles that used a larger portion of the loan mainly for house renovation/buying land or for the purchasing of household appliances, it is recommended to the organization to consider the eventual introducing of new loan products, such as loans for house/apartment renovation, furniture and household appliances purchasing and other.
- Clients have positively estimated the DRC/MDF policy not to charge the up-front fee. It is recommended to the organization to reconsider the previously planned introduction of an up-front fee, having in mind clients' opinion as well as financial parameters of the organization.
- The introduction of bonus system and lower interest rates for repeated loans are recommended as the organization's answer to the clients' negative attitude towards the level of interest rate. Based on the preliminary results of this survey and analyses of other factors, bonus systems have already been introduced.
- The same can be assigned to the penalty rate. It is recommended to conduct the assessment of the individual credit portfolios in order to determine the efficiency of penalty rate in the prevention of repayment delinquency, and if would found nonefficient and/or additional burden for clients' businesses to consider the penalty rate decrease. Based on the preliminary results of the survey and analyses of individual credit portfolios, DRC/MDF penalty rate has been decreased.
- Since there is a certain number of clients unsatisfied with some of the loan product characteristics, it is recommended to consider to conduct qualitative research in order to assess these issues more thoroughly. That can be assigned especially to issues such as loan repayment period and lack of grace period. However, regarding the lack of grace period, it should be mentioned that one of additional offers of DRC/MDF loan product presents the possibility of cycling payments in accordance with production cycle as well as the possibility for having smaller amounts of first three payments (which practically means that first three payments can be in the amount of 25% of monthly installment principal plus interest rate). It is necessary to investigate whether clients are properly informed about that service, and if the service is created in the way to suit clients' needs.

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## **ANNEXES**

**ANNEX 1: List of participants and associates**

**ANNEX 2: Training of interviewers and task**

**ANNEX 3: Lessons learnt for the future application  
of IA study**

**ANNEX 4: Questionnaire for clients**

**ANNEX 5: Questionnaire for control group**

## **ANNEX 1:**

### LIST OF PARTICIPANTS AND ASSOCIATES:

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Senior associates-Experts:

**Consultant:**

Caroline Tsilikounas

**Statistical data analyses:**

Vladimir Vasić

**Data entry list creation:**

Gordana Popović

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DRC/MDF staff:

**Project manager and initiator:**

Milena Gojković

**Authors and coordinators of impact research:**

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Milica Milivojević

**Interviewers:**

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Milade Aćimović

Srećko Milosavljević

**Užice region:**

Ružica Dučić Gordić

Nenad Čović

**Niš region:**

Saša Živković

Predrag Cvetković

**Data entry:**

Ana Maksimović

**Data analyses:**

Jasmina Glišović

Milica Milivojević

## **ANNEX 2: Training of interviewers & Task schedule**

### **TRAINING OF INTERVIEWERS Kraljevo, 14.02.2003.**

#### **I Information about the purpose and aims of IA**

- Goals of IA analyses (15 min.)
- Basic steps of IA process (15 min.)

#### **II Basic principles and general directions for interviewers-examples from the questionnaire** (45 min.)

#### **III Instructions for concrete questions-examples from the questionnaire** (60 min.)

#### **IV Practice-work in groups** (90 min.)

### **BASIC PRINCIPLES AND GENERAL INSTRUCTIONS**

1. Prepare yourself for the interview. Read carefully instructions and other materials. Plan time you need for the work in order to be able to conduct all interviews on time.
2. It is necessary to introduce yourself to the interviewee, give her/him the letter of acknowledgment and identify yourself (show DRC ID). Explain who is conducting the research and for what purposes are results going to be used (use the text from the first side of the Questionnaire). Explain shortly the process of sample selection. Emphasize that all data will be used only for the purpose of the research and will be anonymous. Explain that the interview will last around 30 to 40 minutes.
3. You should tend to be alone with the interviewee. Emphasize that she/he is only speaking for her/himself. Don't make any comments about the answers. Don't discuss about the answers. Don't suggest answers; just write them down. If the interviewee doesn't understand the question, try to provide the explanation. If she/he still doesn't understand, don't insist to get the answer. Right down the answer "Don't know". At the end of the interview, thank the interviewee for the participation.
4. Read question by question and round the answer in the Questionnaire that is the same or the closest to his/her answer. If the answer given from the interviewee is not among answers offered in the Questionnaire, round the answer "Other" and write down his/her answer on the line. For certain questions, it is necessary to read all offered answers to the interviewee, which is evident from the text. All exceptions from the general instructions will be explained in the part Instructions for individual questions.
5. Be patient. If the interviewee needs more time to think, don't rush him/her.

6. During conversation you should be oriented to the goals and objectives of the research. Keep in mind what is the purpose of the interview. If the conversation goes to the wrong direction, carefully direct the interviewee back to the question.
7. If the interviewee hesitates to give answers to certain questions (regarded, for example, the loan use etc.) encourage her/him and remind her/him that answers will not in any way affect her/his future cooperation with the DRC/MDF.

### INSTRUCTIONS FOR INDIVIDUAL QUESTIONS

After you finish writing down the answers, additional changes are not allowed. Besides writing down the basic data (ID number, name of the interviewer, date, municipality and region), at the first side of the Questionnaire there is a *Client information* part. Before the beginning of the interview, it is necessary to write down: type of settlement, gender, status (refugee, IDP, local) and status in the program (first/repeated loan). Beside the appropriate answer the number should be written down.

There are two types of Questionnaires: for clients and for control group. Questions are mostly the same. Naturally, Questionnaire for the control group doesn't contain questions related to the loan. Questions in both questionnaires are numerated in the same way.

There are many questions that are asked (or not) depending on the answers given to the previous questions. Asking (or not) certain questions logically results from the previous answers, but it is also specially noted in the Questionnaire.

- **Note:** Single interview will last approximately 30 to 40 minutes. Plan to have 15-20 minutes break between two interviews to fill in the data on the first page of the Questionnaire. Thus you will have to plan one hour for each interviewee, not including the traveling time. 5-6 interviews per day are optimum number (20 per week).

**The letter of acknowledgment**

Dear Mrs/Mr.

*Danish Refugee Council/Micro Development Fund would like to express the gratitude for taking the part in the survey.*

DRC/MDF implements the survey in order to ascertain the effects of its work. The main goal of the survey is to identify the level of micro loan program influence on the economic and social status of clients and whether the current loan product corresponds to the clients needs. The results will be used for further improvement and development of the micro loan program design towards identified client needs.


Your answers will be completely confidential and analyzed together with the answers of all participants in the survey. Results will be presented collectively.

We appreciate your assent to participate in the survey that will help us to further develop and improve our program.

Best regards,

Micro-loan Program Manager

Milena Gojković



**FIELD TASK SCHEDULE**

<b>Interviewer</b>	<b>Interviewees</b>		
	<b>Clients</b>	<b>Control group</b>	<b>Total</b>
Srećko Milosavljević	24	16	<b>40</b>
Milade Aćimović	22	15	<b>37</b>
Ružica Dučić Gordić	23	16	<b>39</b>
Nenad Čović	16	10	<b>26</b>
Saša Živković	22	14	<b>36</b>
Predrag Cvetković	13	9	<b>22</b>
<b>Total</b>	<b>120</b>	<b>80</b>	<b>200</b>

<b>Interviewer</b>	<b>First week 17-20.02.2003.</b>				<b>Second week 24-27.02.2003.</b>			
	<b>Monday</b>	<b>Tuesday</b>	<b>Wednesday</b>	<b>Thursday</b>	<b>Monday</b>	<b>Tuesday</b>	<b>Wednesday</b>	<b>Thursday</b>
Srećko Milosavljević	5	5	5	5	5	5	5	5
Milade Aćimović	5	5	5	4	5	5	4	4
Ružica Dučić Gordić	5	5	5	5	4	5	5	5
Nenad Čović	4	4	3	3	4	4	2	2
Saša Živković	5	5	5	5	4	4	4	4
Predrag Cvetković	3	3	3	3	3	3	2	2
<b>Total</b>	<b>27</b>	<b>27</b>	<b>26</b>	<b>25</b>	<b>25</b>	<b>26</b>	<b>22</b>	<b>22</b>

### **ANNEX 3: What is learned: Lessons Learnt for the Future Application of IA Study**

The lessons summarized below are at several levels: in the process of questionnaire development, field research and data analyses.

1. Generally, analyzing hypothesis from different aspects was a good way to find out the real situation as well as persistence in client and non-client's answers. But, repetition of similar questions made the questionnaire too long. Also, formulation of certain questions was not clear enough. For example, question number 10 contains the category *Improved housing conditions*. By the reports of interviewers, both, clients and non-clients were often confused with this formulation. Namely, considering that previous questions in the questionnaire were also about housing conditions, it wasn't clear to them whether they should repeat previously said or provide with new answers. Because of that, in the next research study, more specific indicators related to improved diet and housing should be introduced in order to achieve the accuracy of the analyses.
2. While certain questions in the questionnaire were too detailed, by cohesion of certain categories, the necessary precision has been lost. In the question number 13, for example, two different categories were given together *None of the above* – which implies that they didn't make any of previously mentioned investments, and *There was no money left* – which implies that it was not possible to have any investments, considering that there was no money left.
3. In the process of data analyses questions that contained the category *Other* were difficult to analyze, so such formulation should be avoided when possible.
4. Too many available answers in certain questions made the process of data analyses more difficult, while on the other hand; certain data useful for analyses (such as age and marital status) were left out.
5. Certain questions with multiple answers contain categories that are not mutually exclusive. For example, *Expanded/renovated physical premises* and *Improved quality of product*. A client involved in the catering industry for example, could have concluded that while saying that she/he had renovated physical premises at the same time the quality of service was improved, which could have influenced the frequency of answers.
6. By the reports of interviewers, there were many difficulties in getting the answer to the question number 14 regarding the amount of household savings.
7. Data analyses weren't separately conducted for "new" and "old" clients (except in question no. 20). The reason for not analyzing answers separately is in the fact that DRC/MDF loan program is relatively young. The program has been operating for about two years. In the next research study (which is planned in two or three years) such distinction should be made in order to see the difference between the "new" and "old" clients.

**ANNEX 4: Questionnaire for the clients****QUESTIONNAIRE**

Survey Identification number: [\_\_\_\_\_]

Survey Reviewed by: \_\_\_\_\_ Data entered on computer by: \_\_\_\_\_

**IMPACT SURVEY****DRC MDF – Micro Loan Program**

Name of interviewer: \_\_\_\_\_ Date of interview: \_\_\_\_\_

Name of interviewee: \_\_\_\_\_ Municipality: \_\_\_\_\_

Region: \_\_\_\_\_

*Client information: (Interviewer enters data)*

[ ] 1. Urban [ ] 2. Rural Gender: [ ] 1. Male [ ] 2. Female  
 Status: [ ] 1. refugee [ ] 2. internally displaced person [ ] 3. domicile  
 Status in program: [ ] 1. First loan [ ] 2. Repeated loan

*Loan information: (Complete from program records.)*

Date of first loan: \_\_\_\_\_ (day/mo./yr.) Date last loan issued: [\_\_\_\_\_]
   
N° of loans respondent has taken: [ ] Is borrower behind in repayments? (circle): Y N
   
Amount of 1<sup>st</sup> loan: [\_\_\_\_\_] Amount of current loan: [\_\_\_\_\_]
   
[ ] 1. Client of 6-12 months [ ] 2. Client of more than 1 year [ ]

**INTRODUCTION: Good day. Thank you for agreeing to participate in this survey. The purpose of the survey is to confirm the influence of micro-loans on client's living standard and business activities.**

**Information you give us will be completely confidential and will not affect your cooperation with DRC MDF. The survey asks several questions about your household and your business. The survey will take about 30 to 40 minutes to complete.**

*Is this ok? May we continue? Thank you.*Individual Level: Basic Information

1. What is the type of accommodation you live in: *(Read answers and enter response.)*
  1. Own -private accommodation
  2. Collective Center
  3. Rented accommodation
  4. Accommodation - no rent
  
2. What is the highest level of education you completed? *(Do not read. Enter response)*
  1. Primary School
  2. Craft
  3. Secondary School
  4. Associate's Degree
  5. BA
  6. Higher than BA



**Household: Background Information**

3. Who are the persons in your “household” —those that live and share income – and what is their average contribution to the household (HH) income? [Interviewer: 1. total income; 2. explore the last 2 items: remittances and other contributions – excluding non-cash items]

Members of household	Place check Mark $\checkmark$	Contribution to monthly household income
Interviewee		
Spouse		
Child		
Child		
Child		
Mother		
Father		
Relative		
Other ( )		
Other ( )		
<b>Remittances</b>		
<b>Other Contribution</b>		
<b>TOTAL</b>		

4. State the average monthly expenditures of your household (rent, electricity, water, food, telephone...)? \_\_\_\_\_

5. Beside the business activity for which you have taken a loan, are you engaged in one or more other business activities?

1. Yes 0. No

6. If yes, you are additionally engaged in the activity: (Do not read answers.)

- |   |   |
|---|---|
| 1. For the public sector                          | 4. For their own non-registered business      |
| 2. For their own registered business              | 5. For someone else’s non-registered business |
| 3. For someone else’s registered private business | 6. Seasonal job                               |
- 

7. How many people are dependent on joint household contributions (both living within the household and those outside of the household)?

HOUSEHOLD: PROPERTY AND WELFARE

8. Now I have some questions about items that your household might own. I will read a list of items and I would like you to indicate if you or anyone in your household owns any of these items:

Item	a. Do any of your household members own this item? ( <i>Read and check box if “yes”</i> )	b. Was this item acquired during the past year? ( <i>Mark with an “X.”</i> )		c. Did you buy this after you started borrowing from DRC MDF?	
		1. Yes	0. No	1. Yes	0. No
TV					
Stove					
Washing machine					
Refrigerator					
Computer/Rel.equip.					

Item	a. Do any of your household members own this item? ( <i>Read and check box if "yes"</i> )	b. Was this item acquired during the past year? ( <i>Mark with an "X."</i> )		c. Did you buy this after you started borrowing from DRC MDF?	
		1. Yes	0. No	1. Yes	0. No
Vehicle /motorcycle					
Livestock/Poultry					
Other Valuables					
<b>Total # of items</b>					

9. Do you or any of your household members own some of below stated property:?

Item	a. ( <i>Read and check box if "yes"</i> )	b. Was this item acquired during the past year? ( <i>Mark with an "X."</i> )		c. Did you buy this after you started borrowing from DRC MDF?	
		1. Yes	0. No	1. Yes	0. No
Land					
House/Apartment					

10. During past 12 months has some change occurred? (Read)

	a. Compared to January 2002 ( <i>mark with "X"</i> )		b. Compared to period before first borrowing	
	1. Yes	0. No	1. Yes	0. No
Improved diet				
Improved housing				
Increased investment in the household members' education				

**FINANCIAL SITUATION OF THE HOUSEHOLD**

11. Have your average expenses increased, remained the same, or decreased in the following categories at the beginning of the year 2003 compared to the beginning of previous year (2002.)?

	Decreased	Remained the Same	Increased
Rent			
Food			
Water			
Heating (if not electric)			
Telephone			
Electricity			
Clothing			
Education			
Entertainment			
Other ( )			

12. Over the last 12 months, has your household income...? (*Read answers and enter response.*)

1. Decreased    2. Remained the Same    3. Increased    99. Don't Know

13. After having paid expenses for basic household needs, in the past 12 months, have you invested the rest of the money in: (Read and circle answers. Multiple answers possible)

- 1. House building
- 2. House adaptation
- 3. Furniture purchasing
- 4. Something else related to the housing \_\_\_\_\_
- 5. None of the above-there was no money left

14. Approximately how much HH savings do you have in cash? (*Do not read*)

- 1. 0 EUR (no savings)    2. 1-100 EUR    3. 101-200 EUR
- 4. 201-500 EUR    5. >500 EUR    99. Don't know

15. During the past 12 months, has your family's cash savings?  
(Read answers and enter response.)

- 1. Decreased    2. Remained the Same    3. Increased    99. Don't Know

**USE OF LOAN**

16. Did you use the first loan to start business?

- 1. Yes (go to #17)    0. No (go to #18)

17. Could you start your business without taking a loan from DRC MDF? (Read)

- 1. Yes    2. No    3. Yes, but not that successfully...    99. Do not know

18. Did you use the last loan that you took from the DRC MDF program to....?

(*Do not read. Multiple answers possible. Mark answers with X*)

- (a) Start a new business
- (b) Buy equipment, machines or tools
- (c) Reproduction: Purchase more stocks, materials or supplies
- (d) Pay for other business operating expenses (salaries, taxes, rent)
- (e) Hold as savings
- (f) Add business space
- (g) Hire more workers
- (h) Pay for debts related to the business
- (i) Other business use \_\_\_\_\_
- (j) None of the above (not for business use) \_\_\_\_\_

19. Did you use any portion of your last loan to...? (Read each statement. Fill-in appropriate box)

- (k) Buy food for your family 1. Yes 2. No 99. Don't know
- l) Buy clothes, electricity, rent 1. Yes 2. No 99. Don't know
- m) Give or lend money to your spouse or someone else 1. Yes 2. No 99. Don't know
- n) Keep money on hand in case of an emergency 1. Yes 2. No 99. Don't know
- o) Keep money on hand to repay the loan 1. Yes 2. No 99. Don't know
- p) Pay for education for your children 1. Yes 2. No 99. Don't know
- q) Pay for household improvements 1. Yes 2. No 99. Don't know
- r) Renovate house/ buy land 1. Yes 2. No 99. Don't know
- s) Cover some unforeseen costs (illness, death...) 1. Yes 2. No 99. Don't know
- t) None of the above \_\_\_\_\_

20. Rank top three uses of the loan, in order

- Largest amount was spent for \_\_\_\_\_
- Second largest amount was spent for \_\_\_\_\_
- Third largest amount was spent for \_\_\_\_\_

**BUSINESS LEVEL: EMPLOYEES, PROGRESS, PROPERTY AND PROFIT**

Introduction: These questions relate to your or your family members' current or future business activities.

- 21. Are you currently engaged in a business (formal or informal)?  
1. Yes 0. No.
- 22. Is the business you are engaged in registered?  
1. Yes (go to # 23) 0. No (go to #24)
- 23. Has the registration made after you took your first loan?  
1. Yes 0. No
- 24. How long ago did you start the business for which you took a loan? (Read and enter response) 
  - 1. less than 6 months ago 2. 6-12 months ago
  - 3. 12 to 24 months ago 4. Over 2 years ago.
- 25. In which sector is this activity? (Read possible answers.) 
  - 1. Trade 4. Animal Husbandry
  - 2. Production 5. Agriculture
  - 3. Services 6. Mixed (define \_\_\_\_\_)
  - 98. Not applicable

26. How many people, excluding you, worked in this business during the month of January this year (2003)?

(a) Paid workers	(b) Unpaid family/ friends	(c) Total

27. This month last year (January 2002), how many people were working in this business?

(a) Paid workers	(b) Unpaid family/ friends	(c) Total

28. Have you made any of the following changes in your business?

Changes	a. Have you made any of the following changes (Read and check the responses if yes)	b. Was that change occurred during the past year? (Mark with an "X.")		c. Was that change occurred after you started borrowing from DRC MDF?	
		1. Yes	0. No	1. Yes	0. No
a. Expanded/renovated physical premises					
b. Increased level of the production/services					
c. Added new products/services					
d. Hired more workers					
e. Improved quality of product/service					
f. Reduced costs					
g. Sold in new markets/locations					
h. Other (specify: _____)					

29. Have you acquired or invested in any of the following assets? I will read a list:

Investments	a. Have you acquired or invested in any of the following assets (Read and check the responses if yes)	b. Was that investment occurred during the past year? (Mark with an "X.")		c. Was that investment occurred after you started borrowing from DRC MDF?	
		1. Yes	0. No	1. Yes	0. No
a. Purchased major tools like equipment, machinery and/or livestock					
b. Purchased small tools/accessories					
c. Purchased means of transportation/vehicle					
d. Invested in storage facility, barns					
e. Made minor investments to business space such as chairs, tables, desks, storage closets					
f. Invested in business location (kiosks, shops, stables)					
g. Invested in goods/raw material					
h. Other (specific): _____					

30. In comparison with the January 2002 were your sales in January this year (2003):  
(Read answers and enter only one)

- |                   |                    |                          |
|-------------------|--------------------|--------------------------|
| 1. Lower          | 3. Higher          | <input type="checkbox"/> |
| 2. About the same | 98. Not applicable |                          |

31. In comparison with the January 2002 was your profit in January this year (2003):  
(Read answers and enter only one.)

- |                               |                                |                          |
|-------------------------------|--------------------------------|--------------------------|
| 1. Lower (go to #33)          | 3. Higher (go to #32)          | <input type="checkbox"/> |
| 2. About the same (go to #34) | 98. Not applicable (go to #34) |                          |

32. Why was your profit higher in the January 2003 than for the January 2002? (Do not read answers. Circle all that apply.)

1. Increased purchasing power or increased demand
2. Moved to better market location
3. Added new products or services
4. Able to buy inputs at cheaper price
5. Lower rent or other operating costs
6. Have better equipment, machines or tools
7. Improved management/qualifications
8. Other, specify \_\_\_\_\_
9. Other, specify \_\_\_\_\_

33. Why was your profit in the January 2003 lower than for the January 2002? (Do not read answers. Circle all that apply.)

1. Increased competition
2. Decreased purchasing power / lower demand
3. Increased cost of materials
4. Legal regulations (inspections, registration...)
5. Robbery or theft
6. Temporary closure of business (e.g. due to illness, breakdowns, etc)
7. Bad debts (customers not paying)
8. Other, specify \_\_\_\_\_

34. What are the important things that you intend to do with your businesses in the next 12 months? (Do not read answers. Circle. Multiple answers possible)

- |   |  |
|---|--|
| 1. Expand to new location                   | 6. Stay at the same level                        |
| 2. Hire more employees                      | 7. Close the business                            |
| 3. Add new product lines/services           | 8. Decrease number of employees                  |
| 4. Improve quality of products              | 9. Decrease number of existing products/services |
| 5. Invest in the growth of current business | 10. Other (_____)                                |
|   | 99. Don't know                                   |

35. What are the major concerns you are facing related to your business? (Do not read answers. Circle. Multiple answers possible)

- |                                 |  |
|---------------------------------|--|
| 1. Increased competition        | 5. Insufficient market for goods           |
| 2. High taxes                   | 6. Legal or regulatory problems            |
| 3. High rent                    | 7. Decreased purchasing power of customers |
| 4. Lack of knowledge and skills | 8. Personal reasons                        |
|                                 | 9. Other (_____)                           |

**MICRO-LOAN PRODUCT CHARACTERISTICS**

36. Did you face any difficulty repaying your loan in the last loan cycle?

1. Yes (go to # 37)                      0. No (go to #38)

37. What caused those problems? (Do not read answers. Probe. Can be multiple answers.)

1. Loan activity was not profitable
2. Illness (either client's or some of the family members)
3. Some of the loan money used on consumption (food or other items for household)
4. Cash flow problems (customers did not pay back in time)
5. Customers did not pay at all
6. Legal/financial problems
7. Market changes
8. Other (specify) \_\_\_\_\_
99. Don't Know

38. Name three best characteristics of DRC MDF micro-loan product. (Do not read answers. Circle. Multiple answers possible)

1. Adequate interest rate
2. Lower interest rate than other informal sources of loan (informal lenders)
3. Adequate loan size
4. Adequate loan term
5. Reliable source of working capital/ Access to money
6. Possibility to take a repeated loan
7. Cash disbursements
8. No up-front fee
9. Efficiency, compared to banks or other sources
10. Simple collateral procedure
11. Simple procedure
12. Fast pay-out
13. Professionalism of loan officers/other program staff
14. Flexibility of program; readiness to adapt
15. Other (specify: \_\_\_\_\_)
97. Nothing
98. No answer given.
99. Don't know.

39. Name three loan characteristics that are least appropriate to your needs. (Do not read answers. Circle. Multiple answers possible).

1. High interest rate
2. Size of first and/or repeated loans is too small
3. Loan terms are too short
4. Repayment policy (frequency, amount)
5. Penalty
6. Guarantee policy
7. Transaction costs (taxes, postal provision, travel to bank or field office etc.)
8. Inappropriate behavior/attitude of loan officer / other program personnel
9. Lack of grace period
10. Other (specify) \_\_\_\_\_

97. Nothing  
98. No answer given.

40. At your opinion, loan **procedure** is: (Read answers and enter only one)

1. Excellent
2. Very good
3. Good
4. Poor
5. Bad

41. State the difficulties you might have, in obtaining **collaterals**: (Do not read answers. Multiple answers possible)

- a) Difficulties in finding endorsers
- b) High court taxes
- c) Lack of adequate guaranties
- d) Other \_\_\_\_\_
- e) There were no difficulties in obtaining collaterals

42. Express degree of satisfaction with the level of **interest rate**: (Read answers and enter only one)

1. Satisfied
2. Partially satisfied
3. Partially unsatisfied
4. Unsatisfied

43. Do you find the **loan terms**? (Read answers and enter only one)

1. Appropriate
2. Short
99. Do not know

44. State the three main reasons for taking a loan? (Do not read. Rank answers)

- Funds for the business are needed
- Simple procedure
- Fast pay-out
- Cash disbursement
- Adequate loan size
- Adequate loan terms
- Adequate interest rate
- Lower interest rate than other sources of loan
- No other available sources of financing
- Other: \_\_\_\_\_

45. Out of your acquaintances (engaged in same or similar business): (Read and enter response)

1. Everyone took a loan
2. Less than 3 did not take a loan
3. More than 3 did not take a loan

- 46. Do you plan to apply for next loan?
  - 1. Yes (go to #47)
  - 0. No (go to #48)

- 47. Why? (Do not read answers. Circle. Multiple answers possible)
  - 1. Adequate interest rate
  - 2. Adequate loan size
  - 3. Adequate loan terms
  - 4. Simple collateral demands
  - 5. Funds for the expanding of business are needed
  - 6. Simple and fast procedure
  - 7. Good cooperation with loan officer/organization
  - 8. Other \_\_\_\_\_

- 48. Why not? (Do not read answers. Circle. Multiple answers possible)
  - 1. High interest rate
  - 2. Loan size is too small
  - 3. Loan terms are too short
  - 4. Difficulties in obtaining guaranties
  - 5. No need for further financing
  - 6. Complicated-slow procedure
  - 7. Inadequate cooperation with loan officer/organization
  - 8. Problems with business (bad managing, business lapse...)
  - 9. Applied for a loan in other organization
  - 10. Personal reasons
  - 11. Other \_\_\_\_\_

YOUR COMMENTS/SUGGESTIONS FOR IMPROVEMENT OF PROGRAM-LOAN CONDITIONS:

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 END FOR CLIENTS. EXPRESS APPRECIATION FOR THEIR TIME. ANSWER ANY  
 QUESTIONS OR RESOLVE UNCLEAR ISSUES.

**ANNEX 5: Questionnaire for the control group**

**QUESTIONNAIRE**

Survey Identification number: [\_\_\_\_\_]

Survey Reviewed by: \_\_\_\_\_ Data entered on computer by: \_\_\_\_\_

**IMPACT SURVEY**

**DRC MDF – Micro Loan Program**

Name of interviewer: \_\_\_\_\_ Date of interview: \_\_\_\_\_

Name of interviewee: \_\_\_\_\_ Municipality: \_\_\_\_\_

[ ] 1. Urban [ ] 2. Rural Gender: [ ] 1. Male [ ] 2. Female

Status: [ ] 1. refugee [ ] 2. internally displaced person [ ] 3. domicile

**INTRODUCTION: Good day. Thank you for agreeing to participate in this survey. The purpose of the survey is to confirm the influence of micro-loans on client's living standard and business activities.**

**Information you give us will be completely confidential and will not affect your eventual cooperation with DRC MDF. The survey asks several questions about your household and your business. The survey will take about 30 to 40 minutes to complete.**

Is this ok? May we continue? Thank you.

Individual Level: Basic Information

1. What is the type of accommodation you live in: (Read answers and enter response.)

- 1. Own -private accommodation
- 2. Collective Center
- 3. Rented accommodation
- 4. Accommodation - no rent

2. What is the highest level of education you completed? (Do not read. Enter response)

- 1. Primary School
- 2. Craft
- 3. Secondary School
- 4. Associate's Degree
- 5. BA
- 6. Higher than BA

**Household: Background Information**

3. Who are the persons in your “household” —those that live and eat together and share income – and what is their average contribution to the household (HH) income? [Interviewer, explore the last 2 items: remittances and other contributions – excluding non-cash items]

Members of household	Place check Mark ↔	Contribution to monthly household income
Interviewee		
Spouse		
Child		
Child		
Child		
Mother		

Father		
Relative		
Other ( )		
Other ( )		
<b>Remittances</b>		
<b>Other Contribution</b>		
<b>TOTAL</b>		

4. State the average monthly expenditures of your household (rent, electricity, water, food, telephone...)? \_\_\_\_\_

5. Beside the primary business activity, are you engaged in one or more other business activities?

1. Yes 0. No

6. If yes, you are additionally engaged in the activity: (Do not read answers.)

- |   |   |
|---|---|
| 1. For the public sector                          | 4. For their own non-registered business      |
| 2. For their own registered business              | 5. For someone else's non-registered business |
| 3. For someone else's registered private business | 6. Seasonal job                               |

7. How many people are dependent on joint household contributions (both living within the household and those outside of the household)?

--	--

**HOUSEHOLD: PROPERTY AND WELFARE**

8. Now I have some questions about items that your household might own. I will read a list of items and I would like you to indicate if you or anyone in your household owns any of these items:

Item	a. Do any of your household members own this item? (Read and check box if "yes")	b. Was this item acquired during the past year? (Mark with an "X.")	
		1. Yes	0. No
TV			
Stove			
Washing machine			
Refrigerator			
Computer/Rel.equip.			
Vehicle /motorcycle			
Livestock/Poultry			
Other Valuables			
<b>Total # of items</b>			

9. Do you or any of your household members own some of below stated property:?

Item	a. (Read and check box if "yes")	b. Was this item acquired during the past year? (Mark with an "X.")	
		1. Yes	0. No
Land			
House/Apartment			

10. During past 12 months has some change occurred? (Read)

	a. Compared to January 2002 (mark with "X")	
	1. Yes	0. No
Improved diet		
Improved housing		
Increased investment in the household members' education		

**FINANCIAL SITUATION OF THE HOUSEHOLD**

11. Have your average expenses increased, remained the same, or decreased in the following categories at the beginning of the year 2003 compared to the beginning of previous year (2002.)?

	Decreased	Remained the Same	Increased
Rent			
Food			
Water			
Heating (if not electric)			
Telephone			
Electricity			
Clothing			
Education			
Entertainment			
Other ( )			

12. Over the last 12 months, has your household income...? (Read answers and enter response.)

1. Decreased    2. Remained the Same    3. Increased    99. Don't Know

13. After having paid expenses for basic household needs, in the past 12 months, have you invested the rest of the money in: (Read and circle answers. Multiple answers possible)

1. House building
2. House adaptation
3. Furniture purchasing
4. Something else related to the housing \_\_\_\_\_
5. None of the above-there was no money left

14. Approximately how much HH savings do you have in cash? (Do not read)

1. 0 EUR (no savings)    2. 1-100 EUR    3. 101-200 EUR  
4. 201-500 EUR    5. >500 EUR    99. Don't know

15. During the past 12 months, has your family's cash savings? (Read answers and enter response.)

1. Decreased    2. Remained the Same    3. Increased    99. Don't Know



29. Have you acquired or invested in any of the following assets? I will read a list:

Investments	a. Have you acquired or invested in any of the following assets (Read and check the responses if yes)	b. Was that investment occurred during the past year? (Mark with an "X.")	
		1. Yes	0. No
a. Purchased major tools like equipment, machinery and/or livestock			
b. Purchased small tools/accessories			
c. Purchased means of transportation/vehicle			
d. Invested in storage facility, barns			
f. Made minor investments to business space such as chairs, tables, desks, storage closets			
f. Invested in business location (kiosks, shops, stables)			
g. Invested in goods/raw material			
h. Other (specific):			

30. In comparison with the January 2002 were your sales in January this year (2003):  
(Read answers and enter only one)

- 1. Lower
- 2. About the same
- 3. Higher
- 98. Not applicable

31. In comparison with the January 2002 was your profit in January this year (2003):  
(Read answers and enter only one.)

- 1. Lower (go to #33)
- 2. About the same (go to #34)
- 3. Higher (go to #32)
- 98. Not applicable (go to #34)

32. Why was your profit higher in the January 2003 than for the January 2002? (Do not read answers. Circle all that apply.)

- 1. Increased purchasing power or increased demand
- 2. Moved to better market location
- 3. Added new products or services
- 4. Able to buy inputs at cheaper price
- 5. Lower rent or other operating costs
- 6. Have better equipment, machines or tools
- 7. Improved management/qualifications
- 8. Other, specify \_\_\_\_\_
- 9. Other, specify \_\_\_\_\_

33. Why was your profit in the January 2003 lower than for the January 2002? (Do not read answers. Circle all that apply.)

- 1. Increased competition
- 2. Decreased purchasing power / lower demand
- 3. Increased cost of materials
- 4. Legal regulations (inspections, registration...)
- 5. Robbery or theft
- 6. Temporary closure of business (e.g. due to illness, breakdowns, etc)
- 7. Bad debts (customers not paying)
- 8. Other, specify \_\_\_\_\_

34. What are the important things that you intend to do with your businesses in the next 12 months? (Do not read answers. Circle. Multiple answers possible)

- 1. Expand to new location
- 2. Hire more employees
- 3. Add new product lines/services
- 4. Improve quality of products
- 5. Invest in the growth of current business
- 6. Stay at the same level
- 7. Close the business
- 8. Decrease number of employees
- 9. Decrease number of existing products/services
- 10. Other (\_\_\_\_\_)
- 99. Don't know

35. What are the major concerns you are facing related to your business? (Do not read answers. Circle. Multiple answers possible)

- 1. Increased competition
- 2. High taxes
- 3. High rent
- 4. Lack of knowledge and skills
- 5. Insufficient market for goods
- 6. Legal or regulatory problems
- 7. Decreased purchasing power of customers
- 8. Personal reasons
- 9. Other (\_\_\_\_\_)

36. Do you plan to apply for a DRC MDF loan?

- 1. Yes (go to #37)
- 0. No (go to #38)

37. Why? (Do not read answers. Circle. Multiple answers possible)

- 1. Appropriate interest rate
- 2. Adequate loan size
- 3. Adequate loan term
- 4. Simple collateral procedure
- 5. Funds for the business are needed
- 6. Simple and fast procedure
- 7. Other\_\_\_\_\_

38. Why not? (Do not read answers. Circle. Multiple answers possible)

- 1. High interest rate
- 2. Loan size is too small
- 3. Loan terms are too short
- 4. Difficulties in obtaining guaranties
- 5. No need for financing
- 6. Complicated-slow procedure
- 7. Other\_\_\_\_\_

45. Out of your acquaintances (engaged in same or similar business): (Read and enter response)

- 1. Everyone took a loan
- 2. Less than 3 did not take a loan
- 3. More than 3 did not take a loan

YOUR COMMENTS/SUGGESTIONS:

\_\_\_\_\_

\_\_\_\_\_

\*\*\*\*\*

END FOR NON-CLIENTS. EXPRESS APPRECIATION FOR THEIR TIME. ANSWER ANY QUESTIONS OR RESOLVE UNCLEAR ISSUES.